2011 FINANCIAL CONDITION & PERFORMANCE

CITY OF TORONTO FINANCIAL REPORT

A MESSAGE FROM THE DEPUTY CITY MANAGER & CHIEF FINANCIAL OFFICER

CAM WELDON

The 2011 Annual Financial Report for the City of Toronto provides an in depth look at the City's financial performance over the past year, and highlights the progress towards major goals for Toronto's residents and businesses.

One key goal of the City's long term financial plan is to ensure the City maintains its sizable investment in water, wastewater, roads, transit and other infrastructure in a state of good repair. The City is also making significant investments in expanding transit infrastructure to meet the demands of a growing population. This is putting increased pressure on our borrowing needs. When the 2012 Capital Budget was launched in November of 2011, rather than increasing our borrowing requirements, we identified a goal of raising $700 million in new funding for transit capital investment over the next five years from the following sources:

- The monetization of City assets such as the sale of Enwave and a 10% share of Toronto Hydro
- The development and sale of surplus City real estate
- Using City surpluses for capital investment as opposed to balancing the operating budget
- Taking advantage of any new federal or provincial capital investment programs as they are announced.

Council approved proceeding with the sale of the City's minority investment in Enwave but has delayed the decision on the sale of a minority stake in Toronto Hydro. Build Toronto and the Toronto Portlands Company have made excellent progress on the development and sale of surplus City real estate assets and paid the City $60 million in dividends in the first half of 2012. More significantly, Council has confirmed that 75% ($214 million) of the 2011 budget surplus will be allocated to the Capital Financing Reserve to pay for transit capital projects. We are almost 40% of the way in our $700 million goal in new capital financing in the first year of the five year plan. With the sale of Enwave expected to be completed in the fall, continued dividends from Build Toronto and Council's commitment to set aside 75% of surplus for capital, we will achieve the remaining 60%.

The federal and provincial governments have yet to announce new capital investment programs for municipalities but we expect them to within the next few years and we will respond accordingly.

For the fifth consecutive year, the City of Toronto has won the Government Finance Officers Association of the United States and Canada award for excellence in financial reporting. Summarizing the financial activities of such a diverse and complex city is extremely challenging and this award could not have been possible without the dedication of the professional team that I have the privilege to work with every day.

Cam Weldon
Deputy City Manager & Chief Financial Officer

FISCAL CAPACITY

Toronto enjoys a well diversified economy, relatively low business costs, a well-educated workforce and good infrastructure, which allows it to be well positioned to compete internationally. The City government has a sound financial base, as reflected by its high credit rating (at AA+, one level below the maximum AAA) and its healthy accumulated surplus and strong cash position.

The City's structural shortfall comprises two components:

- A cumulative component due to programs downloaded from other levels of government, and
- An annual component due to annual ongoing operating shortfalls.

In an effort to eliminate the annual operating shortfall the City, in 2011, conducted a Service Review Program consisting of a Core Service Review, Service Efficiency Studies and a User Fee Review. Approximately 28 Core Service Review related actions were considered in 2011 with an estimated $49.42 million in gross savings. The Service Efficiency Studies conducted by external firms identified initial savings estimated between $167.0 million to $249.1 million. As a result of the User Fee Review, City Council approved a new corporate policy for setting the price of user fees and determining the amount that should be recovered. New policies to fully recover costs, where appropriate, and the identification of additional opportunities for collecting user fees, are expected to result in higher user fee revenues in future years.

Annual salary and benefits cost pressures are traditionally the largest component of the structural shortfall. As a result of successful labour negotiations in the winter of 2011/2012, these cost pressures have been reduced significantly. The City is expected to save approximately $150 million over 2012-2015 through changes to workplace practices and benefits, and benefit liability reduction. Increased management flexibility as a result of the new agreements will also allow managers to improve customer service while reducing costs further.

The 2008-2009 economic recession had put the City's fiscal capacity under additional stress. Revenues and expenditures that were sensitive to the economic conditions created additional operating budget pressures. As indicated earlier, certain economy-sensitive costs have not returned to the pre-recessionary levels. For example, Social Assistance (Ontario Works) caseload increased by about 33% in 2011 when compared with the 2008 level. On the other hand, declining commodity prices and low interest costs offset some of the budget pressures. It is expected that certain recessionary impacts (such as high unemployment) may linger into the next couple of years.

PHYSICAL INFRASTRUCTURE

The City owns a significant amount of physical assets - comprising roads, expressways, bridges, traffic signal controls, water and wastewater treatment facilities, distribution and collection pipes, reservoirs, pumping stations, subways, streetcars, buses, civic centres, recreation facilities, public housing buildings, parkland and other lands. This infrastructure, excluding land, is currently estimated to be worth in excess of $65 billion. The City's capital program is driven largely by the costs of maintaining these physical assets in a state of good repair.

	Estimated Physical Asset Value
Transportation Infrastructure	**$11 Billion**
Water & Wastewater Infrastructure	**$28 Billion**
Public Transit System	**$11 Billion**
Buildings, Facilities & Fleet	**$ 9 Billion**
Housing Infrastructure	**$ 6 Billion**
Total (excluding parkland and land)	**$65 Billion ++**

The City's road network, the majority of which was constructed in the 1950's and 1960's, is in need of major repair and rehabilitation. The City's water and wastewater network is similarly aged – 50% of the water pipes and 30% of wastewater pipes are more than 50 years old, while 7% of watermains and 3% of wastewater infrastructure are more than 100 years old. Due to fiscal constraints, the City's historical spending in the capital program is less than ideal. In addition, capital requirements resulting from population growth and demographic changes will add financial pressures. The City's 2002 Official Plan projects population growth of up to a million people in the City of Toronto, raising the population to 3.5 million people in 30 years. More buses, social housing, recreation centres, etc. are required, which will put pressures on the City's capital and operating budgets to provide additional services, and build and operate new facilities.

The investment in physical infrastructure is typically funded by the following sources: Federal and provincial funding where applicable, reserves and/or reserve funds, development charges, donations, operating contribution and debt. Debt is the funding source of last resort for capital purposes.

Subsequent to the 2008-2009 recession, the Federal and Provincial governments introduced economic stimulus program funding (under the Infrastructure Stimulus Fund (ISF) and the Recreational Infrastructure Canada Program in Ontario and the Ontario REC (RInC-REC)). The stimulus funding for the City totalling $460 million over two years ending March 31, 2011, leveraged the City's capital program and enabled the City to begin to renew the infrastructure that supports City services. In December 2010, the Federal Government announced an extension for completion of ISF – RInC projects to October 31, 2011. This allowed the City to maximize the utilization of funds available under these programs. As part of its 2009 stimulus budget, the Federal Government also created the "Municipal Infrastructure Lending Program (MILP)", which offered low-cost loans for municipalities to invest in residential infrastructure, local transportation infrastructure and wastewater treatment facilities. During 2010 and 2011, the City executed three loans through MILP totalling $120 million to finance capital works for roads and bridge improvements ($100 million) and municipal infrastructure related to social housing redevelopment ($20 million).

In setting the current Capital Budget and Plan, a key objective is to ensure that available resources are utilized to mitigate State of Good Repair (SOGR) backlog and to minimize risks associated with delayed maintenance of the City's aging infrastructure.

CAPITAL FINANCING AND DEBT

The City borrows to finance capital expenditures, it cannot borrow to finance operating expenditures under the *City of Toronto Act*. The goal for capital financing is to maximize all funding from external sources, including Federal and Provincial Governments, development charges, donations and reserve funding, before using City's own revenue sources, namely operating contribution and issuance of debt, while achieving the lowest cost of funds.

Toronto has enjoyed relatively low debt levels; however, in light of the growing capital infrastructure needs, there is a sizeable and growing gap between future capital expenditure needs and ongoing sustainable revenue sources. The City does not appear to have the fiscal capacity for necessary growth related expenditures, e.g. TTC, Transportation, etc. For the next ten years, the TTC is projected to make up the majority of the new debt required to fund the City's capital requirements.

The City has implemented a framework for developing multi-year capital and operating budgets, and ensured that limited resources are aligned to priorities to maximize the benefits for Toronto's residents.

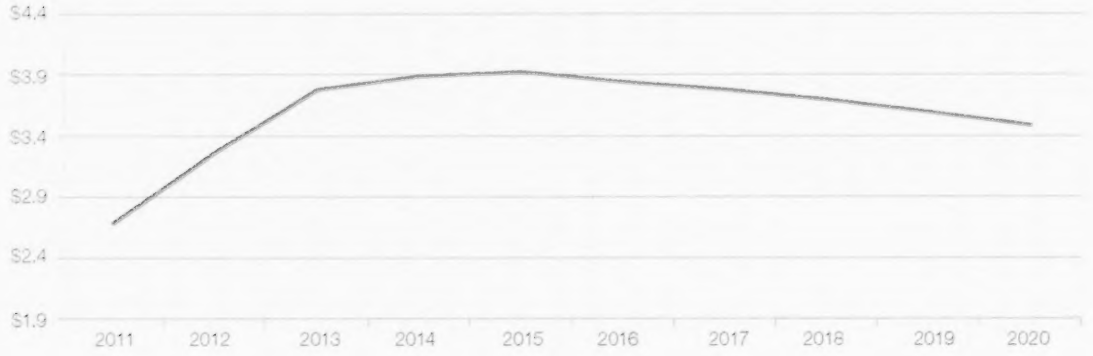
The City in 2010 refinanced parts of its current and future debt by paying down existing debt, and borrowed funds for selected projects on 30-year terms as opposed to the current 10-year term. The 30-year debt was used to finance long term assets and more closely match the life span of the infrastructure being built or purchased, e.g. subway tunnels and subway cars.

The City used the proceeds of the Toronto Hydro promissory note, which had been dedicated to two specific areas of investment (Spadina subway and Waterfront development), and paid down approximately $600 million of existing debt by prepaying the City's sinking fund.

A new strategy to inject $700 million in non-debt financing into the capital budget will be employed starting in 2012. The new financing is expected to come from proceeds from the use of future operating budget surpluses in accordance with the City's surplus policy, potential monetization of City assets, and expected provincial and federal assistance. Through these actions, the City intends to fully finance the capital plan from the TTC that was previously unfunded, minimize the amount of property taxes used to pay debt financing costs, while maintaining the City's debt service ratio well below its 15 per cent threshold in relation to property taxes. The move also allows safeguards for the City in the uncertain global economy.

Current estimates showed that the City's net long-term outstanding debentures would increase from $2.7 billion at the end of 2011 to peak at just over $3.9 billion in 2015 (mainly due to Pan Am Games and the TTC), and decrease to $3.5 billion by 2020 as shown in the chart below.

CITY OF TORONTO
NET DEBT ($ BILLIONS)



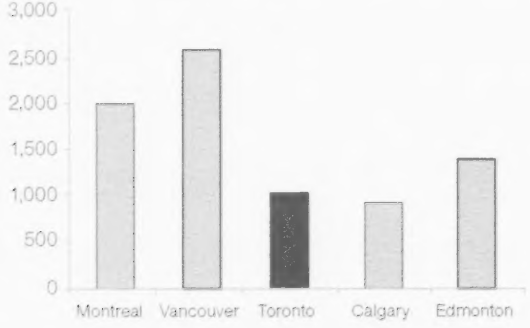
City Council previously approved a debt service guideline such that the debt service cost should not exceed 15 per cent of property tax revenues in a given year. Although only a guideline, this limit means that at least 85 cents on each tax dollar raised is available for operating purposes.

The 2010 debt refinancing will help manage the pressures of debt repayment related to the annual operating budget. Repayment of principal and interest on the City's debt continues to be the second highest expense on the annual property tax bill. Lowering the annual debt payments, and spreading them out over a longer period, will allow the City to direct more property tax dollars to services each year.

Overall, the City's debt burden is relatively modest and its net tax-supported debt per capita is comparable to other major Canadian municipalities. Interest costs also compared favourably with the other major Canadian municipalities, as illustrated below.

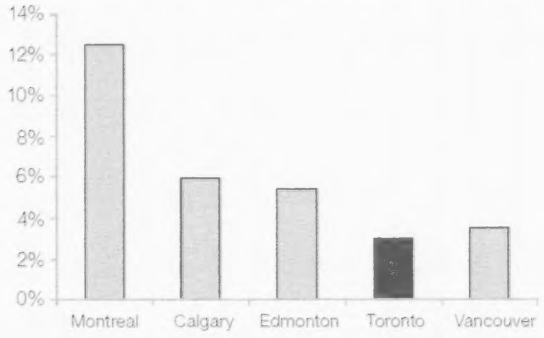
TORONTO'S NET DEBT IS COMPARABLE TO OTHER MAJOR CANADIAN CITIES

Net Tax-Supported Debt per Capita (2009 $M)



TORONTO'S INTEREST COST COMPARES FAVOURABLY WITH OTHER MAJOR CANADIAN CITIES

Interest Costs as a Proportion of Operating Expenditures (2009 %)



Source: DBRS Canadian Municipal Government Fact Sheet September 2011

CAPITAL MARKET AND INVESTMENT ACTIVITIES DURING 2011 AND THE OUTLOOK FOR 2012

Capital Market Activity

During 2011, the City issued $813 million of its approved debt program (up to $900 million for 2011) with $650 million ($450 million 30-year debentures and $200 million 10-year debentures) issued in the public capital market, a further $143 million 20 year debenture issued to Infrastructure Ontario for Green Lane, and $20.1 million debentures (on behalf of and to be paid by Toronto Community Housing Corporation) to the Canada Mortgage and Housing Company to take advantage of their low interest stimulus program.

For 2012, the City plans to issue a combination of debt with 10 and 30 year maturities, recognizing increased investor demand for these terms and interest rates that continue to be very attractive to government issuers. Since a portion of the City's capital financing requirements are expected to be fulfilled from the proceeds of the monetization of various assets as approved by Council, it is expected that the amount of debt required to be issued during the year will be lower than the budgeted amount of $900 million. Most likely, it will be in the range of $600 to $700 million.

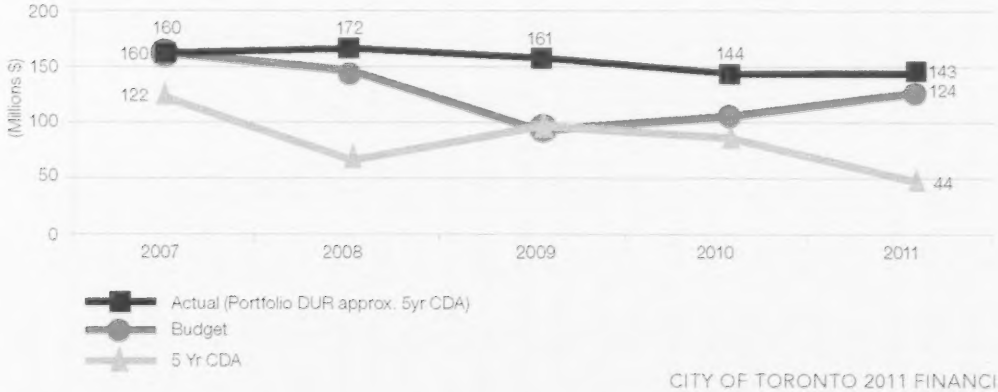
Investment Activity

The City manages several investment portfolios, each of which has specific objectives. Two individual portfolios that are managed interactively are the Bond and Money Market Funds. The Bond Fund is positioned towards funding the City's future reserve and reserve fund requirements and therefore takes a longer view of the market. The Money Market portfolio is primarily focused on ensuring that adequate liquidity is maintained to meet the immediate cash flow requirements of the City's daily operations.

The City's bond portfolio continued to exhibit high credit quality and liquidity, especially during these extended periods of economic turbulence and market turmoil. The City does not hold any bonds with less than an "A" credit rating and 86.3% were rated "AAA/AA".

In 2011, investment earnings on the City's managed funds totalled $143.9 million. Interest rates plummeted to historic lows in 2011 while the City's required investment earnings to meet budgetary requirements continued to increase (see figure below). A 4.2% average annual rate of return was achieved in 2011.

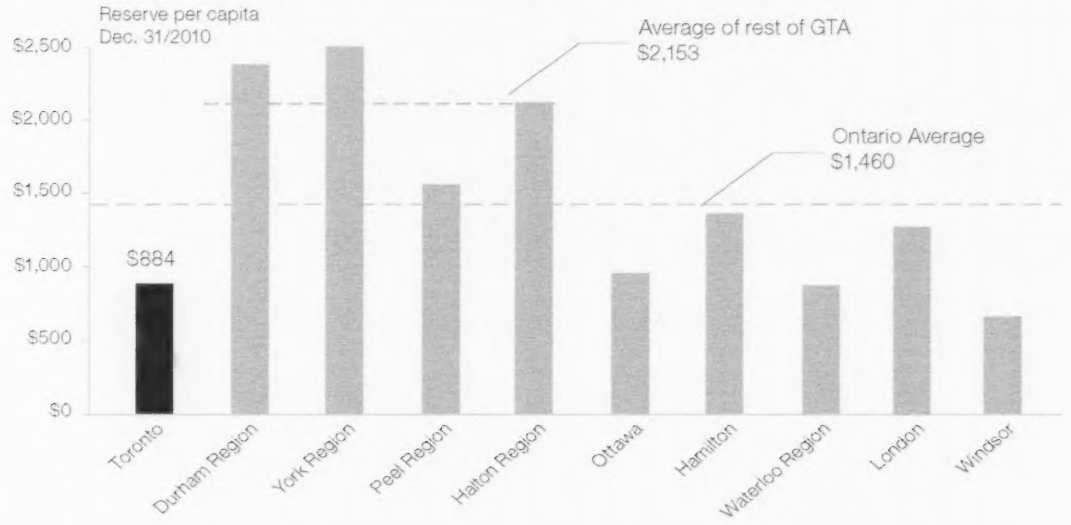
CITY INVERSTMENT INCOME COMPARED TO BUDGET AND
A 'BUY & HOLD' 5-YEAR GOVERNMENT OF CANADA BONDS STRATEGY



RESERVES AND RESERVE FUNDS

Reserves and Reserve Funds are monies set aside by Council to finance future expenditures for which it has authority to spend money, to defend the City against an unbudgeted or unforeseen event that may result in a budget deficit such as an economic downturn, to smooth out future program expenditures which may fluctuate from one year to the next, or to accumulate funds for future capital requirements or contingent liabilities. While the reserve fund balances would appear to be a large sum, it should be noted that the majority of these funds are committed to special purposes.

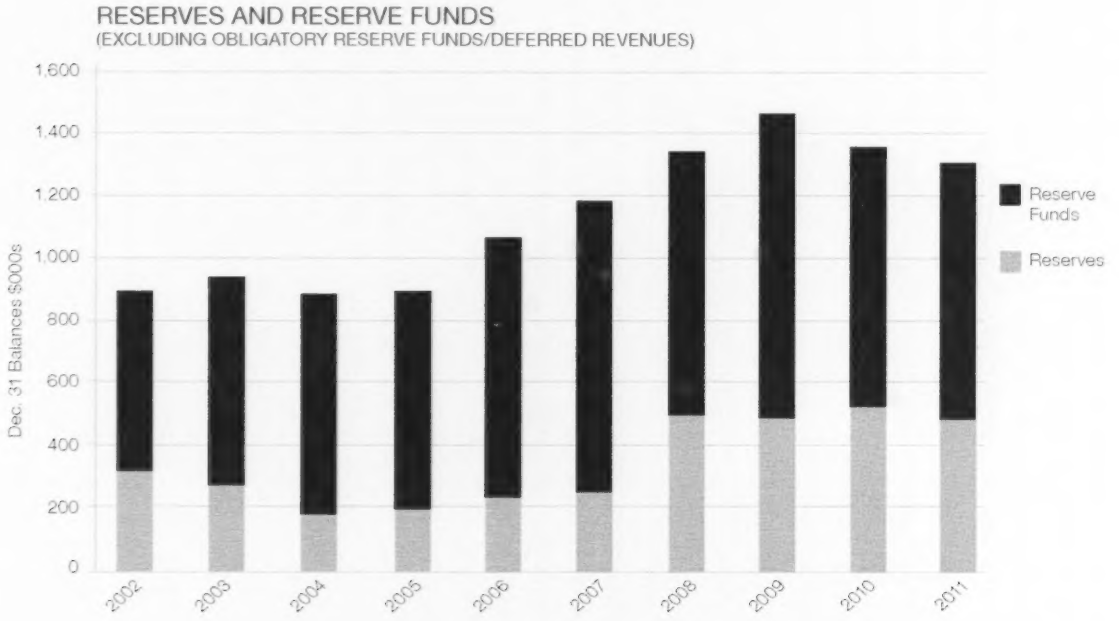
RESERVE LEVELS ARE LOWER THAN THE REST OF GTA BUT SOMEWHAT COMPARABLE TO OTHER CITIES/REGIONS



Sources: Ontario Ministry of Municipal Affairs & Housing - 2010 FIR
Regional data consolidated for upper and lower tiers
Balances include Obligatory Reserve Funds/Deferred Reve

On a comparative basis, the City's overall reserve fund balance on a per capita basis is much lower than those in other Ontario jurisdictions. Toronto's 2010 reserve per capita of $884 was considerably less than the rest of the GTA ($2,153), and about 60% of the provincial average ($1,460). The City has established long-term reserve strategies for major reserves, e.g. employee benefits reserve and water and wastewater stabilization reserves, to address and make sure that adequate funds are in place, including determining needs and establishing contribution policies.

The following chart shows the historical trend of reserve and reserve fund balances since 2002. While the overall trend has been rising, this has reversed in recent years as the City attempts to catch up on the State of Good Repair backlog and begins to invest in major capital initiatives like transit.



DEFERRED REVENUES

Funds that are set aside for specific purposes by legislation, regulation or agreement and may only be used in the conduct of certain programs or the completion of specific work are reported as Deferred Revenues (previously Obligatory Reserve Funds). These include funds received from the other orders of government, Development Charges for third parties earmarked for certain purposes, e.g. Transit, Social Housing, Parkland Acquisition, Long Term Care Homes and Services. These amounts are recognized as liabilities in the year the funds are deposited, and received into revenue in the fiscal year the related expenditures are incurred or services performed. These funds are all committed, some of which will be used to fund some of the City's priority capital needs like transit expansion, and are not available at Council's discretion.

REVENUES

PROPERTY TAX

Property tax revenue is the City's single largest source of revenue. The City collects $3.6 billion from residential and business property owners, which represents 38% of its total tax-supported Operating Budget.

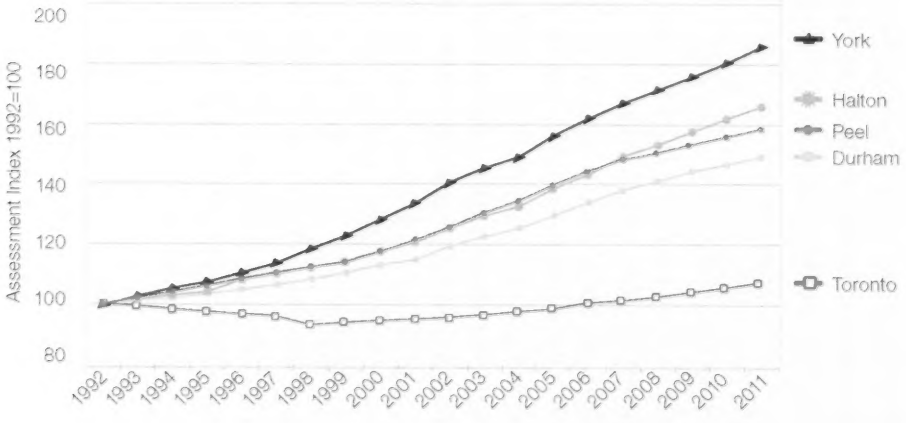
Every year the City is required by provincial legislation to establish tax rates that raise property tax revenues in the amount of the City's budgetary requirement. In addition, the City is also required to levy and collect property taxes for school purposes at the education tax rates prescribed by the Province.

The amount of property taxes payable by a property is determined by multiplying the Current Value Assessment (CVA) of a property by the applicable tax rate for that class of property (e.g., residential, commercial, industrial, or multi-residential). The total tax rate for a property class consists of a municipal tax rate necessary to meet the City's budgetary requirement and the education tax rate necessary to fund the provincially-determined costs of education.

The Municipal Property Assessment Corporation (MPAC), a provincial agency, is responsible for property assessment in Ontario and preparing the assessment rolls for municipalities on a Current Value Assessment (CVA) basis. The CVA of a property represents an estimated market value, or the amount that the property would sell for in an open market, arm's length sale between a willing seller and a willing buyer at a fixed point in time.

Over the last two decades, the GTA experienced quite remarkable economic and population growths following the recession of the early 1990's. The Toronto region (CMA) contains a number of the fastest-growing municipalities in Canada. The bulk of the new construction and the associated assessment increase are located in the surrounding areas in the GTA. For example, from 2001 to 2011 the rest of the GTA had assessment increases in excess of 30%: York Region: 39%, Halton Region: 38%, Peel Region: 31%, and Durham Region: 30%. By contrast, Toronto's property assessment in 2011 is just 13% above its 2001 level, partly due to the conversion of certain industrial into residential properties.

TORONTO DOES NOT HAVE THE SAME ASSESSMENT GROWTH ENJOYED BY THE NEIGHBOURING REGIONS

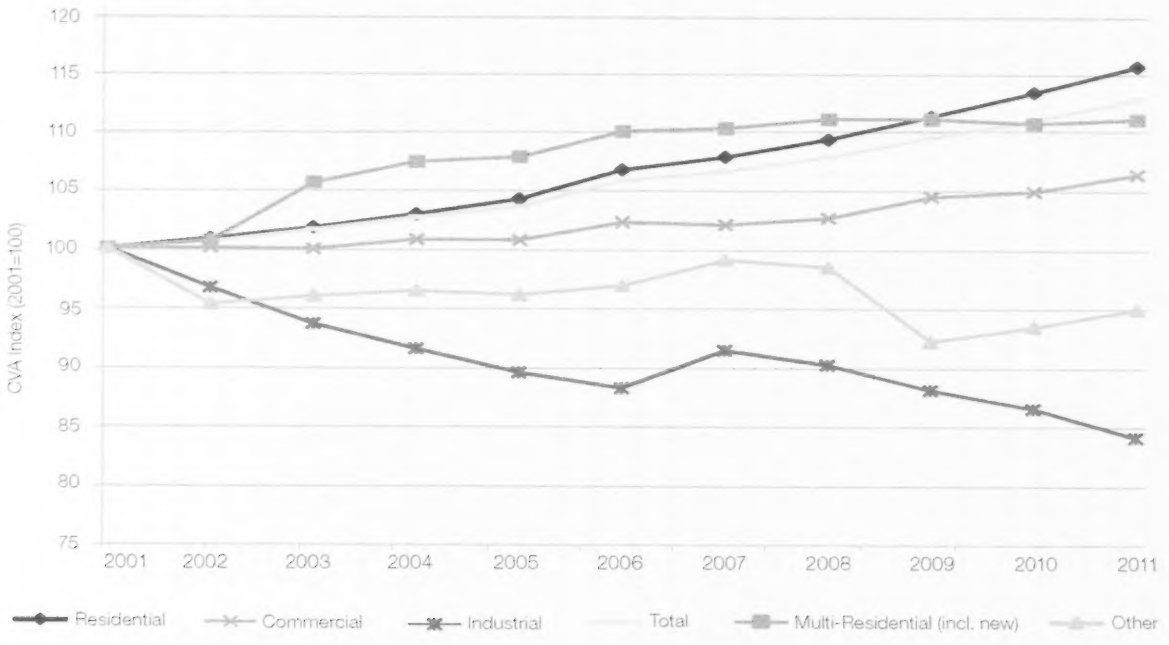


Source: Municipal Property Assessment Corporation

Since 2001, the total CVA of the City's properties has experienced a true net growth of 13% when the impacts of property reassessment are removed. Despite a decline in the industrial sector, the overall development climate in Toronto remained healthy in 2011 with continued growth in the residential and commercial sectors. At the end of the year, Toronto led all North American cities in the number of high-rise buildings under construction (178), with Mexico City (88) and New York City (74) being the next closest. In particular, 4 office towers currently under construction, or nearing commencement of construction are expected to contribute an additional 2.8 million square feet . Toronto's vacancy rates for both industrial and office space continued to be lower than in the "905" municipalities. The prospect for continued assessment revenue growth remains bright. This is illustrated in the chart below.

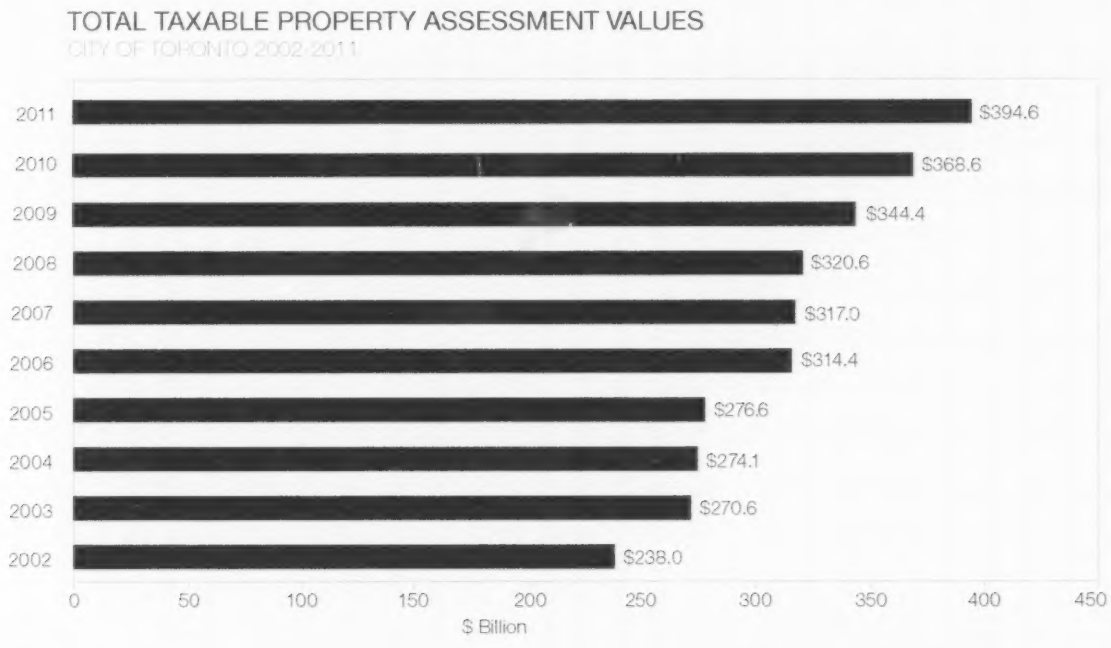
TORONTO'S TRUE ASSESSMENT GROWTH

(EXCLUDING REASSESSMENT IMPACT)
2001-2011



Property Assessment

The following chart depicts the total value of all property classes of the City of Toronto's current value assessment in each of the years from 2002 – 2011.



Effective 1998, Ontario municipalities whose commercial, industrial or multi-residential tax ratios exceed threshold ratios established by the Province, are restricted from passing on municipal levy increase to those classes. In Toronto, tax ratios for the commercial, industrial and multi-residential tax classes all exceed the provincial thresholds, as shown in the following chart, which means that no municipal levy (budgetary) increases can be passed on to these classes so long as the ratios exceed the threshold limits. This meant that instead of accessing the full assessment base, the City could increase tax rates only on the residential class at the time.

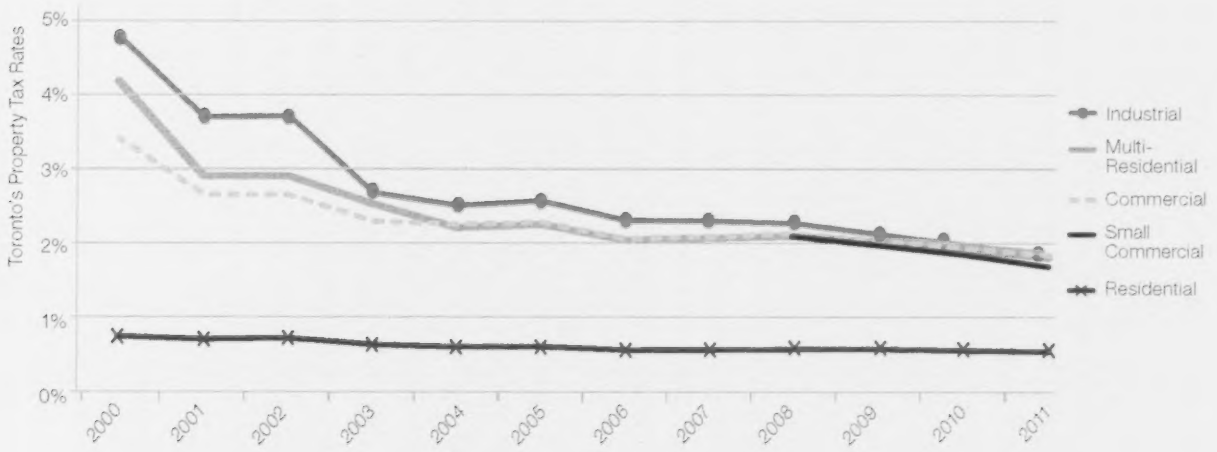
Toronto's Tax Ratios vs. Provincial Threshold Ratios

	Taxation Years											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Provincial Threshold Ratios
Multi-residential	4.174	4.001	3.870	3.802	3.761	3.635	3.546	3.469	3.380	3.316	3.316	**2.74**
Commercial	3.798	3.513	3.516	3.762	3.802	3.674	3.584	3.506	3.373	3.267	3.237	**1.98**
Commercial Small								3.410	3.265	3.108	3.020	**1.98**
Industrial	5.301	4.120	4.120	4.273	4.273	4.090	3.920	3.740	3.547	3.375	3.237	**2.63**

Since 2004, the Ontario Government has enacted regulations that allow municipalities to adopt annual tax rate increases on the non-residential classes where the tax ratios exceed the provincial threshold ratios provided that the tax rate increases do not exceed 50% of the tax rate increase on the residential tax class. Although the relaxing of the restriction on non-residential classes is not permanent, it does provide partial relief from the budgetary levy restrictions imposed by Provincial legislation.

In late 2005 Council approved a comprehensive property tax policy "Enhancing Toronto's Business Climate - It's Everybody's Business" to improve the business climate in the City, and consequently in 2006 implemented the policy of allowing for up to one-third of any residential tax rate increase to be applied to the Commercial, Industrial, and Multi-Residential tax classes (i.e. a one percent non-residential tax increase for a residential tax increase of three percent), which would reduce its non-residential tax ratios to 2.5 times the residential rate over 15 years (by 2020). In addition the policy provides for an accelerated tax reduction for neighbourhood retail and small businesses that will see their tax ratios fall to 2.5 times residential within ten years (by 2015), as well as property tax relief measures for non-retail office, hotel and industrial developments.

BUSINESS TAXES HAVE BEEN REDUCED



Other City efforts to enhance competitiveness have resulted in a successful agreement with the provincial government to reduce business education tax (BET) rates for the City of Toronto businesses closer to the average of the surrounding GTA municipalities, creating a new, fair water rate structure for industrial and manufacturing companies and continuing the relief of development charges for the city's commercial industry.

Provincial legislation also mandates limits on re-assessment related tax increases to 5% per year for the commercial, industrial and multi-residential property classes, which for many properties in these classes may result in a phase-in towards their CVA level of taxes.

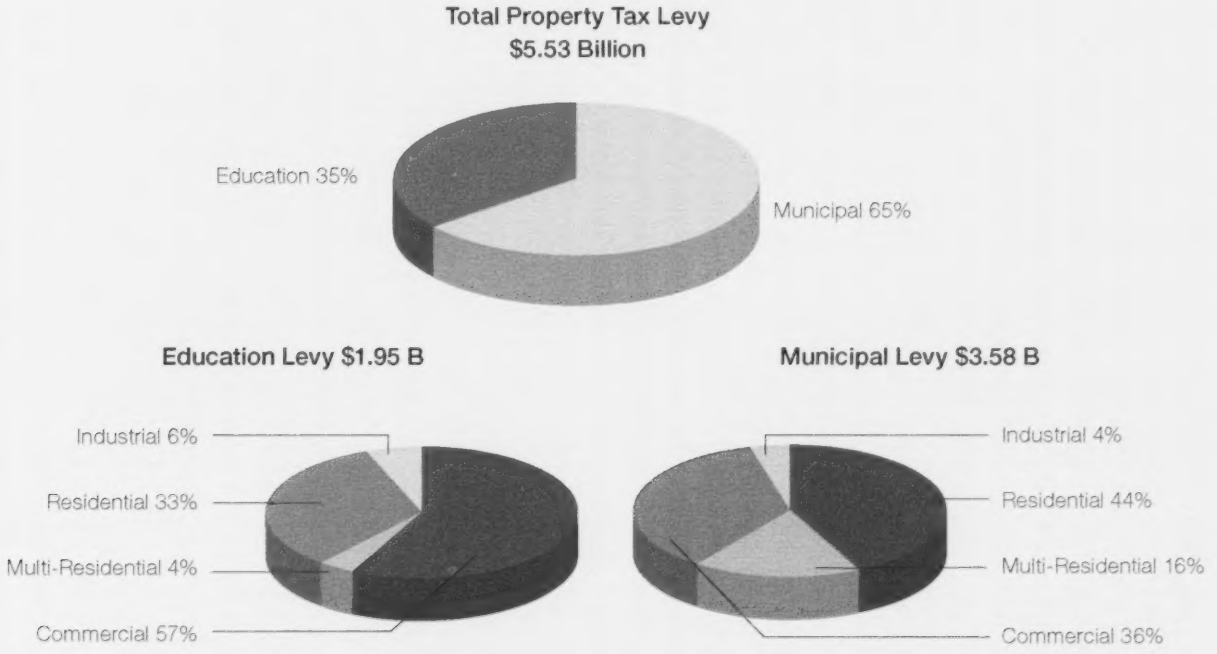
Special provisions to provide tax relief for low-income seniors and disabled persons, as well as registered charities and similar organizations, are also required.

Tax relief policies in effect for 2011 include:

- The cancellation of any tax increase for seniors aged 65 or older or disabled persons, living with a household income of $36,000 or less, who have occupied their home for at least one year, and the homes assessed value is less than $575,000.
- The interest free deferral of any tax increase for seniors aged 50 years or older or disabled persons, whose household income is $50,000 or less and have owned the property for at least one year.
- A 40% rebate of taxes paid for registered charities owning or occupying space in commercial or industrial properties.

The following chart shows the total approved 2011 property tax levy totalling $5.53 billion, comprising $3.58 billion (65%) for municipal purposes and $1.95 billion (35%) for education purposes which the City collects on behalf of the Province of Ontario. The approved amounts may be different than the actual amounts received.

TORONTO 2011 PROPERTY TAX LEVY



The table below illustrates the 2011 taxes payable for the average household in Toronto with an average assessed value of $427,177.

	2011 Tax Rate	2011 Property Tax
Municipal Purposes	0.5619218%	$2,400
Education Purposes	0.2310000%	$ 987
Total	**0.7929218%**	**$3,387**

USER FEES

User fees are the City's second largest source of revenue. Excluding Toronto Water and the Toronto Parking Authority, the City collects over $1.4 billion in user fee revenues annually through approximately 3,000 individual user fees.

As a result of a comprehensive User Fee Review in 2011, City Council approved a new corporate policy for establishing the initial and annual price of a user fee and determining the amount that should be recovered.

A new funding system for Solid Waste Management Services, the volume-based rate structure, was implemented November 1, 2008 to fund the service objective of 70% waste diversion. This funding plan transforms Solid Waste Management (garbage, recycling, green bin, litter prevention, landfill management and other diversion programs) from being property-tax-based to user fee-based, and its fees are now part of the Utility Bill, together with the water charges, that are sent to city residents and businesses. The entire Solid Waste Management program is now funded from revenue other than property taxes (including funding from Waste Diversion Ontario, sales proceeds from recyclable materials and user fees).

FUNDING TRANSFERS FROM OTHER GOVERNMENTS

The City receives grants and subsidies from other orders of government which are mainly for mandated programs such as Social Assistance, Child Care, Public Health, Social Housing, and Transit funding. These transfers represent about 19% of the total tax-and rate-supported Operating Budget.

OTHER TAXATION

The City of Toronto is the only Ontario municipality with the legislative authority (City of Toronto Act, 2006) to allow it to levy taxes other than property taxes. The Municipal Land Transfer Tax (MLTT) was implemented on February 1, 2008, and Personal Vehicle Tax (PVT) on September 1, 2008. In 2010, the two taxes brought in revenues in excess of $320 million, or approximately 3% of the total tax-supported Operating Budget. On December 16, 2010, however, City Council approved the termination of the City's Personal Vehicle Tax (PVT) effective January 1, 2011.

MLTT revenues continued to exceed expectations in 2011 as low mortgage rates helped to keep real estate sales strong in the City of Toronto. MLTT revenues matched the level of revenues brought in by both the MLTT and PVT in the previous year.

CREDIT RATING

The City of Toronto is recognized as an important participant in global financial markets. The maintenance of a high quality credit rating is essential to ensure that the City's ability to access the most cost-effective world capital markets will continue as it needs to borrow funds for capital purposes.

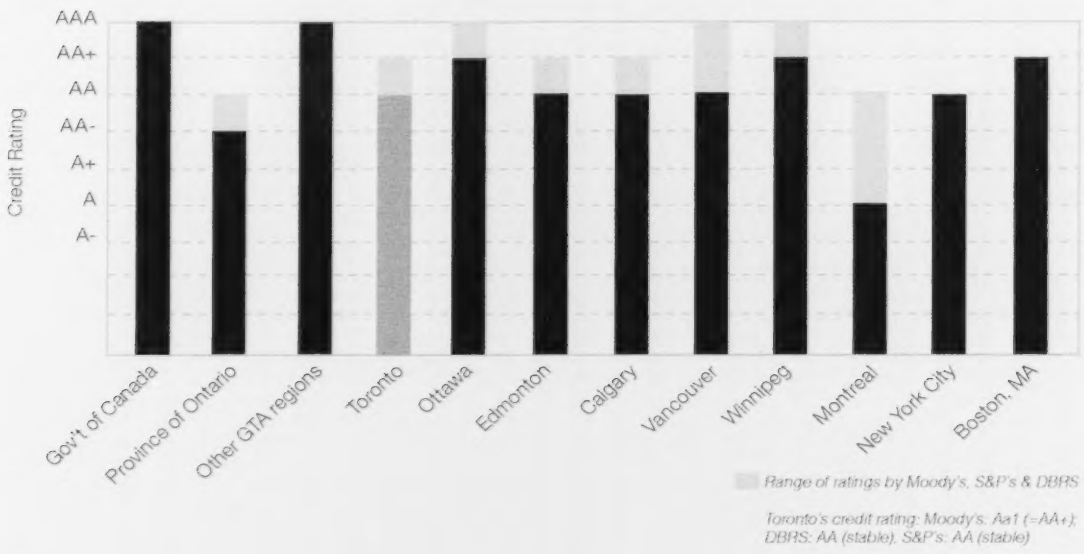
A municipality's credit rating helps to determine the ability to borrow funds. Credit rating agencies assess the City's financial position by comparing it with other cities and regions. A number of factors affect the credit rating, such as quality of management, strength of economy, level of reserves, state of repair of assets, debt levels, etc. If a municipality's current debt levels and future trends appear to be high, this will have a negative impact on its credit rating. If debt levels are considered low, this will have a positive impact. The rating essentially indicates the City's ability

to make payments on the debt now and in the future.

While the City's debt affects its rating, the rating affects the City's ability to borrow, as well as the cost of borrowing. A higher rating translates into a lower cost of borrowing, as well as a wider market for investors to invest in City debt. Below a certain rating, investors may have policies that don't allow them to purchase the City's debt. Then the City would have to offer a higher interest rate to attract investors.

The City's credit rating remains comparable to similar or larger North American cities such as New York, Boston, Vancouver and Montreal.

TORONTO'S CREDIT RATING



Currently, the City of Toronto's credit ratings are:

- AA with a stable trend from the Dominion Bond Rating Service Ltd.(DBRS) – confirmed August 2011
- AA with a stable outlook from Standard and Poor's Canada (S&P's) – December 2009
- Aa1 with a stable outlook from Moody's Investor Service – confirmed April 2011
-

City of Toronto's Credit Rating History	1997	1998-2001	2002-2011
DBRS	AAA	AA (high)	AA
Standard and Poor's	AA+/AAA	AA+	AA
Moody's Investors Service	Aa2	Aa2	Aa1

Credit Rating agencies regularly issue reports respecting the industries and individual issuers. Here are some of the excerpts from those reports that generally explained the high rating held by the City of Toronto.

"DBRS has confirmed the ratings of the debentures issued by the City of Toronto (the City or Toronto) at AA. The trends remain Stable, supported by the City's relatively wealthy tax base and strong resolve at restraining spending and finding permanent solutions to eliminate the budget gap. However, debt remains under considerable pressure as a result of heavy capital spending, which is eroding financial flexibility and could affect the City's rating if increases are not contained.....Helped by spending discipline and unexpected revenue improvement, the City ended 2010 with an operating surplus of $554 million, notably above budget. However, elevated levels of capital investments led to a sizeable post-capex deficit of $685 million as calculated by DBRS, more than twice last year's level. Despite a considerable imbalance contemplated at the onset of its 2011 budget process, the City still managed to balance this year's fiscal plan (excluding capex) with the help of renewed cost containment efforts and the use of prior-year surpluses. The budget maintains service levels and leaves property taxes unchanged for the first time since 2000. Spending increases will be scarce, mostly for transit and police services, while City operations will see spending reductions owing in part to the extensive service review launched last year and aimed at reducing net expenditures by 5% in 2011 and an additional 5% in 2012. Expected to be completed this fall, the review will play a significant role in closing the $774 million preliminary gap besetting the 2012 budget process.....DBRS commends management for the thorough review underway, which is probably the most extensive cost containment effort undertaken by the City in recent memory."

DBRS, August 2011

"The City of Toronto's debt rating of Aa1 reflects the city's low debt burden and corresponding low debt service ratios, as well as the positive operating results recorded by the city over the past several years despite challenging financial circumstances which have necessitated the use of non-recurring measures to achieve balanced operating budgets. The high investment-grade rating also reflects a large and diversified economy, which remains a source of credit strength, providing access to a broad tax base. Moreover, the rating is supported by the city's high levels of net cash and investments, which provide substantial liquidity that could be tapped to mitigate unanticipated shocks, a considerable measure of safety for debenture holders. These high levels of internal liquidity are also reflected in the Prime-1 (P-1) rating assigned to its US commercial paper program."

Moody's Investors Service, May 2012

"The ratings on the City of Toronto, in the Province of Ontario (AA-/Negative/A-1+), primarily reflect Standard & Poor's Ratings Services' view of the following credit strengths: Toronto presides over an exceptionally broad and diverse economy, providing stability to its budgetary performance. Its primary wealth generating sectors, namely the financial, professional, scientific and technical service sectors, outperformed their counterparts in most other cities through the global credit crisis, maintaining fairly steady employment from 2007-2011...Debt and interest burdens are very low relative to those of Toronto's domestic and international peers in the 'AA' rating category. Its tax-supported debt was C$3.4 billion as of Dec. 31, 2011, equaling 38% of adjusted operating revenues. Its interest costs represented 3% of adjusted operating revenues in 2011...Toronto also maintains very positive liquidity, with free cash and liquid investments exceeding the next 12 months' debt service by more than 400%. The city's in-year cash flows are also relatively stable, thanks to its efforts to encourage residents to pay property taxes monthly. Its predictable property tax and user fee revenues, coupled with its stable expenditure profile, result in good visibility on near-term funding needs."

Standard & Poor's Ratings Services, August 2012

LONG TERM FINANCIAL PLAN UPDATE

The City of Toronto has a Long Term Financial Plan (LTFP), the goal of which is to ensure the City is in a sound financial condition and can finance services to the public and stakeholders on a sustainable basis. The City's vision for the Long Term Financial Plan is three-fold:

- Well managed — for service recipients
- Sustainable — for future generations, and
- Affordable — for current residents and businesses.

The Long Term Financial Plan was approved in 2005 and identified eight major financial issues relating to Expenditures, Revenues, and Assets & Liabilities, and contained 25 financial strategies, 17 fiscal principles and five financial policies. Since 2005, the City has made significant progress addressing the majority of those financial issues.

The following LTFP Scorecard summarizes the major financial issues identified in the 2005 Plan and the current status:

Scorecard (2005-2011)

Identified in the Long Term Fiscal Plan 2005	Current Status 2011	Score
Well Managed (Expenditures): • City has higher costs than surrounding municipalities • Demands for growth need to be adequately funded • Capacity to sustain services in an economic downturn	Costs "restrained"	✔
	Expenditures growth slowed significantly	✔
	Social Services & Court Security upload Restoration of full 50% funding on Ontario Works administration costs	✔
Affordable (Revenues): • Business taxes need to be more competitive • Revenue growth needs to match responsibilities/ growth • Province needs to properly fund income support programs and public transit	Improving business competitiveness	✔
	Revenues diversified - Provincial Upload on schedule; User Fees Enhanced	✔
	Secured permanent share of Fed/Prov. Gas Tax	✔
	Provincial 50% Transit Operating Funding	–
	Share of Harmonized Sales Tax	–
Sustainable (Assets & Liabilities): • Ageing infrastructure must be maintained • Employee benefits and other liabilities need to be adequately funded	10 year capital plan More than 60% to be spent on State of Good Repair	✔
	Debt increase mitigated	✔
	Sick Pay liability partially capped, but some liabilities still growing	✔

Legend

✔ Improving or compares favourably – Stabilizing or work in progress

PERFORMANCE MEASUREMENT AND BENCHMARKING RESULTS

To provide context when examining Toronto's performance, it is important to consider that municipal property taxes represent only 8.8 per cent of the total taxes, in all forms, paid annually by an average Ontario family. These various forms of taxes include income taxes, Employment Insurance and Canada Pension Plan premiums, consumption taxes such as the Harmonized Sales Tax (HST), and embedded taxes, which are included in the price of gasoline, liquor and tobacco. The discussion on Toronto's performance that follows is focused on how Toronto utilizes its 8.8 per cent share of the total tax dollar. Toronto's 2010 Performance Measurement and Benchmarking Report can be found at *www.toronto.ca/legdocs/mmis/2012/ex/bgrd/backgroundfile-46957.pdf*

The report includes:

- Service / activity level indicators and performance measurement results (efficiency, customer service and community impact) in 28 different service areas;
- Up to eleven years of Toronto's historical data to examine trends;
- A comparison of Toronto's 2010 results externally to 15 other municipalities through the Ontario Municipal CAOs' Benchmarking Initiative (OMBI), which now includes the Cities of Calgary and Winnipeg;
- Colour-coded summaries of results and supporting charts to describe those trends; and
- A description of 2011 achievements and planned 2012 initiatives that will further improve Toronto's operations in the future.

By examining our own operations and by working with other municipalities through OMBI, these processes encourage Toronto's service areas to continuously look for opportunities to improve operations and performance.

SUMMARY OF TORONTO'S 2010 PERFORMANCE MEASUREMENT & BENCHMARKING RESULTS

Toronto is unique among Canadian municipalities because of its size, density and role as Ontario's and Canada's economic engine and centre of Ontario's business, culture, entertainment, sporting and provincial and international governance activities. Despite these unique characteristics, there is value in making comparisons of performance measurement results to other municipalities to assist in understanding how well Toronto is doing. Through the OMBI partnership, performance measurement results are shared between municipalities and are included in Toronto's Benchmarking Report. Toronto's results are ranked and placed in quartiles relative to 15 municipalities that comprise OMBI, which now includes the Cities of Calgary and Winnipeg. OMBI's members are comprised of ten single-tier cities/counties and six regional or upper tier municipalities. Combined, the OMBI municipalities serve more than 10.12 million residents or 73 percent of Ontario's population.

The most accurate comparison for Toronto is to examine its own year-over-year performance and longer term historical trends.

By examining our own operations and by working with other municipalities through OMBI, these processes encourage Toronto's service areas to continuously look for opportunities to improve operations and performance. Many of these improvement efforts completed in 2011 or planned for 2012 are summarized in the report including:

- Initiatives to improve customer service
- Efficiency improvement initiatives
- Initiatives to improve effectiveness
- Initiatives to improve the quality of life for Torontonians

SUMMARY OF TORONTO'S RESULTS

The 28 municipal services included in the report each have a colour coded summary of results at the front of their respective sections, and are supported with and referenced to charts and detailed narratives for approximately 170 indicators and measures.

Highlights of Toronto's overall results described below:

Internal Comparison – Service/Activity levels indicators
Of the 42 service/ activity level indicators included in the report, Toronto's 2010 service or activity levels were maintained (stable) or increased for 86 per cent of the indicators in relation to 2009.

Examples of some of the areas in which Toronto's 2010 service levels or levels of activity increased were:

- Increased number of police officers
- Greater investment in childcare
- Increased investment in cultural activities
- Increased library hours
- Provided additional parking spaces
- Increased the amount of maintained parkland and trails
- Processed more planning applications and building permits with a healthier development climate

Internal Comparison – Performance Measures
Of the 126 performance measurement results of efficiency, customer service and community impact included in the report, 74 per cent of the measures examined had 2010 results that were either improved or stable relative to 2009.

Examples of areas where Toronto's 2010 performance improved include:

- Increased construction activity for both the residential and commercial, industrial and institutional (ICI) sectors, as well as increases in planning applications, both of which continued an upward trend in 2011
- Reduced the time required to resolve by-law complaints
- Increased attendance at cultural events
- Reduced rates of fires, and injuries and fatalities related to those fires
- Increased library usage and a lower cost-per-use
- Continued high rate of resident satisfaction in long term care home and a decreased cost per bed-day
- Continuing high rates of satisfaction of parks users
- Reduced cost of processing a planning application
- Decreased crime rates in all crime categories and improved the clearance rate for violent crimes
- Improved solid waste diversion rates for both houses and apartments and reduced the complaint rate for solid waste collection
- Increased the usage of registered sports and recreation programming
- Increased public transit trips per person, and the utilization rate (trips per vehicle-hour) of transit vehicles
- Improved the pavement quality of roads
- Reduced the time to process accounts payable invoices and increased the number of invoices processed per staff member
- High rates of meeting legislated timeframes for reviewing and issuing building permits and mandatory inspections that continued despite sustained high volumes
- Reduced the amount of tax arrears and the cost to maintain a tax account

- Reduced amounts of wastewater bypassing full treatment before release (does receive partial treatment and amounts to less than 0.4%)
- Reduced the average annual water use per household

EXTERNAL COMPARISON – SERVICE/ACTIVITY LEVEL INDICATORS

There are 51 service/activity level indicators included in the report where Toronto's results can be compared and ranked with other municipalities and placed in quartiles. Toronto's service/activity levels are higher than the OMBI median for 54 per cent of the indicators.

Between Toronto's 2009 and 2010 benchmarking reports, there was little change in Toronto's quartile ranking for each of the service/activity level indicators in relation to other municipalities. Any changes in Toronto's quartile ranking for individual indicators will likely only occur over much longer time periods.

Some of the key factors that influence Toronto's results for service/activity level indicators in relation to other municipalities include:

- Services where Toronto's size and high population density requires higher service levels, indicative of large densely populated cities, such as higher levels of police staff, more transit vehicle hours and a larger library collection
- Higher needs and demands in a large city like Toronto for social programs such as childcare, social assistance, social housing and emergency hostels/shelters
- Fewer facilities or less infrastructure can be required in densely populated municipalities like Toronto because of proximity and ease of access, while other less densely populated municipalities require proportionately more facilities or infrastructure to be within a reasonable travel distance of their residents. Examples include the number of recreation facilities, libraries and kilometres of roads
- Fewer emergency services vehicle-hours may be required in densely populated municipalities like Toronto because of the close proximity of vehicles and stations to residents, which allows for more timely emergency response. Those municipalities with lower population densities may require proportionately more vehicle hours in order to provide acceptable response times.

EXTERNAL COMPARISON – PERFORMANCE MEASURES

There are 117 measures of efficiency, customer service and community impact in the report where Toronto's results can be compared and ranked with other municipalities and placed in quartiles.

Toronto's results are higher than the OMBI median for 49 per cent of the measures. Between Toronto's 2009 and 2010 benchmarking reports, there was very little change in Toronto's quartile ranking for each of the performance measures in relation to other municipalities. Changes in Toronto's quartile ranking for individual measures are more likely to occur over a five year period or longer.

Areas where Toronto has the top/best result of the OMBI municipalities include:

- Highest pavement quality rating for our roads system
- Highest rate of public transit usage
- Lowest rate of residential fire-related injuries
- Lowest rate of youth crime

- Highest revenue generated per off-street and on-street parking space
- Highest solid waste diversion rate for houses

There are many other examples where Toronto's performance is better than other OMBI median including:

- Low rate of governance and corporate management costs of single-tier municipalities
- Better rate of leveraging City grants by recipient arts organizations (to access other revenue sources)
- Higher rate of return on investments and lower costs to manage those investments
- High library usage rates
- A higher proportion of the city's geographic area is parkland
- Shorter emergency response times than in many other municipalities
- Lower cost to administer a social housing unit
- Lower total and property crime rates
- High rate of resident satisfaction in long term care homes and a lower cost per bed-day
- Low rate of property tax arrears
- Second highest rate of building/ construction activity behind only Calgary and a lower cost to enforce the building code per $1,000 of construction value
- Higher rate of new residential housing units created

OTHER METHODS OF ASSESSING TORONTO'S PROGRESS

Toronto's award winning initiatives

In 2011 Toronto's initiatives received numerous awards from external organizations for initiatives such as, Toronto's Walking Strategy, Toronto's innovative efforts to engage the community in water conservation, Toronto's Dinesafe Restaurant Inspection and Disclosure Program and Toronto's new Browser application *www.toronto.ca/council* for improving access to local government through the use of technology.

Further information on Toronto's award-winning initiatives can be found at *www1.toronto.ca/wps/portal/toronto/landing?vgnextoid=ef1c439c7395f210VgnVCM1000003dd60f89RCRD.*

Other Report Cards and Indicator reports

Toronto's Benchmarking Report focuses on performance measurement results in specific service areas; however it is by no means the only type of reporting conducted by Toronto in this area. Links to other indicator reports issued by the City of Toronto or in association with the City, are noted below:

- Management Information Dashboard (Quarterly): *www.toronto.ca/legdocs/mmis/2012/ex/bgrd/backgroundfile-45690.pdf*
- Wellbeing Toronto (Neighbourhood Indicators): *http://map.toronto.ca/wellbeing/*
- Economic Indicators: *www.toronto.ca/business_publications/indicators.htm*
- Toronto Community Health Profiles: *www.torontohealthprofiles.ca/*
- Children's Report Card: *www.toronto.ca/reportcardonchildren*
- Federation of Canadian Municipalities: *www.fcm.ca/home/resources/reports.htm*
- Vital Signs (Toronto Community Foundation): *www.tcf.ca/vitalinitiatives/vitalsigns.html*

GLOBAL CITY INDICATORS

In November 2005, Toronto staff joined with World Bank officials in an initiative to develop an integrated approach for measuring and monitoring the performance of cities. The objective of this initiative was to develop a standardized set of city indicators that measure and monitor city performance and quality of life at a global level.

This initiative will benefit Toronto by expanding its current benchmarking work beyond Ontario and Canada to include other large international cities.

The indicators cover a total of 22 theme areas. Eight of the themes relate to quality of life indicators such as civic engagement, culture, economy and the environment. Fourteen of the theme areas relate to city services and are designed to capture the service levels or amount of resources each city devotes to delivery of the service and the outcomes or impacts of that service on the city. Examples of service areas included are fire services, recreation services, police services, social services, solid waste management services, water and wastewater services.

As of March 2012, there were 171 cities in 61 countries represented in the Global City Indicators Facility, which included members from:

- Australia - Melbourne
- Brazil – Sao Paulo, Belo Horizonte, and Porto Alegre
- Canada – Montreal, Toronto and Vancouver
- Chile – Santiago
- Columbia – Bogotá and Cali
- England – Birmingham
- Finland – Helsinki
- France – Paris
- Indonesia – Jakarta
- India – Mumbai
- Italy – Milan
- Iran – Tehran
- Israel – Tel Aviv
- Jordan – Amman
- Netherlands – Rotterdam
- Peru – Lima
- Portugal – Lisbon
- South Africa – Cape Town, Johannesburg and Durban
- Spain – Madrid and Barcelona
- United Arab Emirates – Dubai
- USA – King County (Regional Seattle), Portland and Dallas

Toronto is seen as a leader in this initiative, proactively providing measures and indicators to benchmark service delivery and quality of life. The ability to compare and benchmark internationally and to establish and share better practices through the available networks can be invaluable.

For further information on Global Cities Indicators Facility, please visit *www.cityindicators.org*.

CONCLUSION

The City continues to promote a continuous improvement culture in order to provide our citizens and businesses with services that are as efficient and effective as possible, looking for the optimal combination of efficiency, quality and beneficial impact on our communities.

For additional information on the City of Toronto's progress please visit our website *www.toronto.ca/progress*.

TREASURER'S REPORT

The Consolidated Financial Statements are intended to provide Council, the public, the City's debenture holders, and other stakeholders, an overview of the state of the City's finances at the end of the fiscal year and indicate revenues, expenses and funding for the year.

The preparation, content and accuracy of the Consolidated Financial Statements and all other information included in the financial report are the responsibility of management.

As required under Section 231 of the *City of Toronto Act*, the financial statements are prepared in accordance with generally accepted accounting principles as set by the Canadian Institute of Chartered Accountants' (CICA) Public Sector Accounting Board (PSAB).

These Consolidated Financial Statements have been audited by PricewaterhouseCoopers LLP whose role is to express an independent opinion on the fair presentation of the City's financial position and operating results and to confirm that the statements are free from material misstatement. The external auditor's opinion is to provide comfort to third parties that the financial statements can be relied upon.

CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements include the following individual statements:

Name	Purpose
Consolidated Statement of Financial Position	Summarizes the assets (financial and non-financial), liabilities, net debt, and accumulated surplus as at December 31st.
Consolidated Statement of Operations and Accumulated Surplus	Outlines revenues, expenses, surplus for the year and accumulated surplus at year end. This statement reflects the combined operations of the operating, capital, reserves and reserve funds for the City and its consolidated entities, and provides the calculation of the City's accumulated surplus at year end.
Consolidated Statement of Net Debt	Outlines the changes in net debt as a result of annual operations, tangible capital asset transactions, as well as changes in other non-financial assets.
Consolidated Statement of Cash Flows	Summarizes the City's cash position and changes during the year by outlining the City's sources and uses of cash.

The Consolidated Financial Statements combine the financial results of the City's divisions with the financial results of the agencies, boards, commissions ("ABCs") and government business enterprises that the City effectively controls. There are 113 entities that are directly included in the financial statements and these are listed in Note 1 to the Consolidated Financial Statements. There are also a number of subsidiaries of ABCs which are not included in the entity count above. The notes to the statements provide further detail about the City's financial results and are an integral part of the statements.

Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position is the municipal equivalent of the private sector's balance sheet. This statement focuses on the City's assets (financial and non-financial) and liabilities. The difference between the liabilities and financial assets is the City's net debt, which represents the net amount that must be financed from future budgets.

The detailed breakdown of the accumulated surplus, including all of its components: amount invested in capital assets; operating fund, capital fund, reserve and reserve fund balances; and amounts to be recovered from future revenues, are reflected in Note 17 to the Consolidated Financial Statements.

The City has received funds for specific purposes under legislation, regulation or agreements. The recognition of these funds as revenues has been deferred until related expenses occur in the future. For example, development charges, parkland dedication fees and Federal and Provincial Government transfers received (such as public transit funding), are not recognized as revenues until such time as the projects are constructed. These restricted funds are included in liabilities as "Deferred Revenue" and not in the accumulated surplus. A breakdown of the City's obligatory reserve funds can be found in Note 8 (a) to the Consolidated Financial Statements.

As a result of the significant investment in tangible capital assets, there is a large accumulated surplus, which occurs at the same time that the City has a significant net debt, which must be financed through future revenues. Although tangible capital asset balances are considerable for municipalities – much larger on a percentage basis than any other level of government – they do not provide liquidity, and are not typically available for sale, the proceeds of which could be used for other purposes. It is for this purpose that tangible capital assets are not included in the calculation of net debt, arguably the most important financial statistic for governments.

Consolidated Statement of Operations and Accumulated Surplus

The Consolidated Statement of Operations and Accumulated Surplus is considered to be the municipal equivalent to the private sector's Statement of Income and Retained Earnings.

The Consolidated Statement of Operations and Accumulated Surplus provides a summary of the revenues, expenses, and surplus throughout the reporting period and outlines the change in accumulated surplus.

The 2011 budget values presented in this statement have been adjusted to reflect the differences between amounts as budgeted at the City on a modified "cash requirements" basis and amounts recorded in these financial statements on a "full accrual" basis. Note 18 outlines the adjustments to the approved budget, particularly exclusion of debt proceeds, principal payments, and tangible capital asset purchases, and inclusion of estimated amortization expense. These adjustments to budgeted values were required to provide comparative budget values based on the full accrual basis of accounting. The accrual based budget results in a surplus, as the City must fund reinvestment in assets at amounts greater than their historical cost.

Consolidated Statement of Net Debt

The Consolidated Statement of Net Debt is unique to governments. This statement focuses on the debt of the City, adjusting the annual surplus for the impact of tangible capital assets: mainly deducting the costs to acquire assets, and adding back amortization charged during the year.

New in 2011

During 2011, the City established 2 new corporations:

- Casa Loma Corporation (CLC); and,
- Lakeshore Arena Corporation (LAC).

A board was established for each of the two new corporations to oversee operations and examine strategic alternatives for the sale or retention and operation of these facilities. As a result, additional long-term debt of $39.5M has been added to these consolidated financial statements as the City assumed control over the Lakeshore Arena and assumed the debt previously guaranteed by the City for the development of this facility.

Also in 2011, management determined that Toronto Port Lands Company (TPLC) now qualified as a government business enterprise based on the company meeting all four of the required characteristics:

1. It is a separate legal entity;
2. It has been delegated financial and operational authority to carry on a business;
3. It sells goods and services to individuals and organizations outside the government reporting entity (i.e. not

to the City or its ABCs) as its principal activity; and,

4. It can, in the normal course of operation, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.

Previously, with the creation of Build Toronto and Invest Toronto, and the movement of the incubator programs to Economic Development, there was doubt as to whether TPLC was able to meet point four above. However, based on its surplus recognized in 2010, its expectation of ongoing income, and its revaluation of its environmental liabilities, TPLC is expected to qualify for all four points above for the foreseeable future.

In addition, the Public Sector Accounting Board (PSAB) required the conversion of two of the City's four GBEs to International Financial Reporting Standards (IFRS). Adoption of IFRS has resulted in the revaluation of TPLC's tangible capital assets at fair value. This has resulted in a significant increase to the investment in GBEs, as detailed further in this report and in Note 5 of these consolidated financial statements.

FINANCIAL CONDITION

An important measure of any government's financial condition is its net debt: calculated as liabilities (e.g. trade and employment payables, mortgages and debentures) less financial assets (e.g. cash, receivables, and investments).

The City's net debt as at December 31, 2011 increased by $26M to $4.41B (2010 - $4.39B). This increase is due primarily to the City's considerable investments in tangible capital assets, offset by a higher annual surplus for 2011 resulting from higher earnings from GBEs, as well as the impacts from reclassification of Toronto Port Lands Company as a GBE. For more information on the change in Net Debt, please refer to the Consolidated Statement of Change in Net Debt and Note 5 of the Consolidated Financial Statements.

The City's net long-term debt (Note 12) increased by $374M (2010: $91M) primarily due to new net long term debt issuances of $736M (2010: $965M) offset by net long-term debt repayments of $295M (2010: $821M) and interest earned on sinking funds of $67M (2010: $53M). Debt repayments in 2011 were less than in 2010 as $600M, primarily from the sale of the Toronto Hydro note, was invested in sinking funds in 2010.

The following debt was issued in 2011:

$ 000s	Total	≤ 5 Yrs	10 Year	15 Year	20 Year	25 Years	30 Year
Summary by Service							
Protection	47,677	–	47,677	–	–	–	–
General Government	57,894	–	37,894	–	–	–	20,000
Transportation	108,056	–	58,056	–	–	–	50,000
TTC	401,373	–	56,373	–	–	–	345,000
Planning & Devt	35,000	–	–	–	–	–	35,000
Lakeshore Arena	39,545	39,545	–	–	–	–	–
Social Housing	46,040	–	–	10,200	9,900	25,940	–
	735,585	**39,547**	**200,000**	**10,200**	**9,900**	**25,940**	**450,000**

In order to improve the City's net debt position, the City continues to implement its Long Term Fiscal Plan. Some key measures included in the plan are: tax policies which enhance economic competitiveness and improve Toronto's business climate, utilization of user rate adjustments for environmental and cost control purposes, and working with

the Province to continue and expand the upload of social service program costs.

While the debt financing has grown and will continue to grow due to state of good repair funding requirements and increased focus on improving public transit, the City's updated Capital Plan, inclusive of enhanced federal and provincial funding, combined with the recent approval of the long-term debt restructuring strategy, ensures a solid financing plan is in place for the next five years.

The positive effects of implementing these financial plans are reflected in the City's AA and Aa1 (Moody's) independent credit ratings.

Another key indicator of a government's financial condition is the amount that must be recovered from future revenues as included in Note 17 of Consolidated Financial Statements. These liabilities include TCHC mortgages, debentures, employee benefit liabilities, property and liability claim provisions, landfill liabilities and environmental liabilities. In 2011, the total amount that must be recovered from future property taxes and other revenues grew by $619.5M to $7.21B. This increase mainly consists of:

- an increase of $187.2M in employee benefits liabilities, due primarily to the drop in the discount rate;
- an increase of $88.6M in other liabilities, mainly property and liability claims provision as a result of the discount rate decrease; and
- an increase of $343.7M in mortgage and long term debt, due primarily to increase in the amount of debt issued.

Table 1 outlines the trend in financial asset and liability growth over the last five (5) years.

Table 1

Net Debt – 5 Year Summary

(in thousands of dollars)

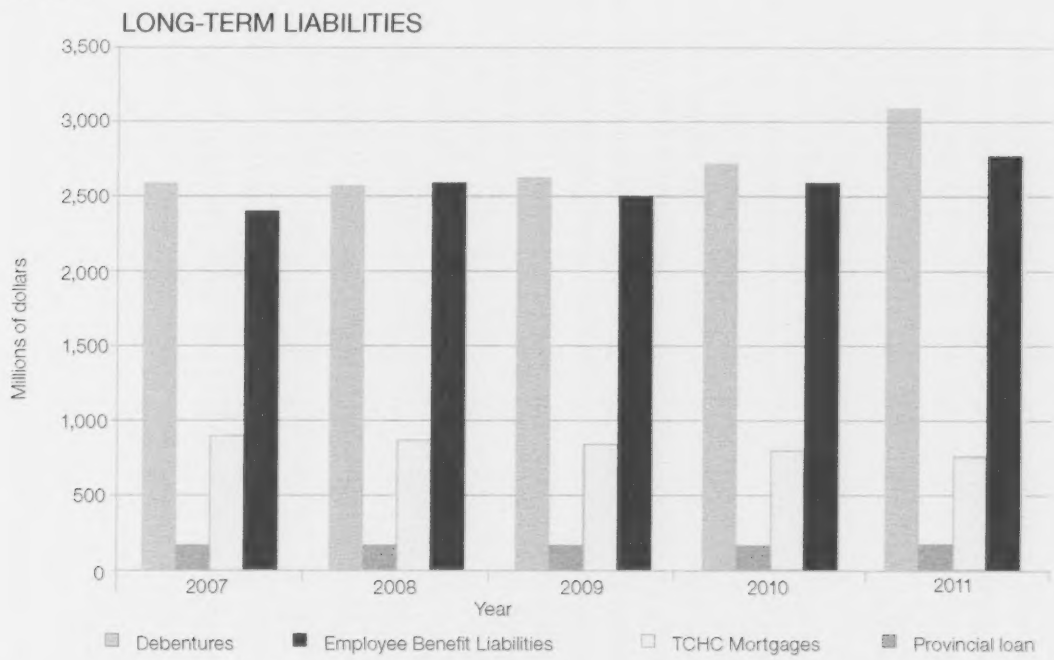
Net Debt ($000s)	4 Year Average Annual Increase	2011	2010	2009	2008	2007
Liabilities	4.95%	11,684,379	10,899,622	10,392,487	10,647,259	9,631,062
Financial assets	2.53%	7,273,083	6,513,984	6,728,291	7,109,217	6,580,328
Net Debt	**9.66%**	**4,411,296**	**4,385,638**	**3,664,196**	**3,538,042**	**3,050,734**
Percentage Increase		**0.59%**	**19.69%**	**3.57%**	**15.97%**	

The City's net debt has increased by a compound annual rate of 9.66% over the last four years, attributable to increases in long-term debt to third parties and in long-term employee benefit liabilities.

The significant growth in long-term debt has been driven mainly by the need to finance transit capital expenditures. The growth of employee benefit liabilities has been driven significantly by declines in the discount rate, an aging demographic (employees and retirees), increased utilization of the plan, increased cost of drugs and services and de-regulation of government sponsored benefits which are transferred to private benefit plans. Council has contained some of the growth of this liability through collective bargaining, including eliminating the vested sick leave plan for new employees for Local 79 and 416 hired after July 31, 2009.

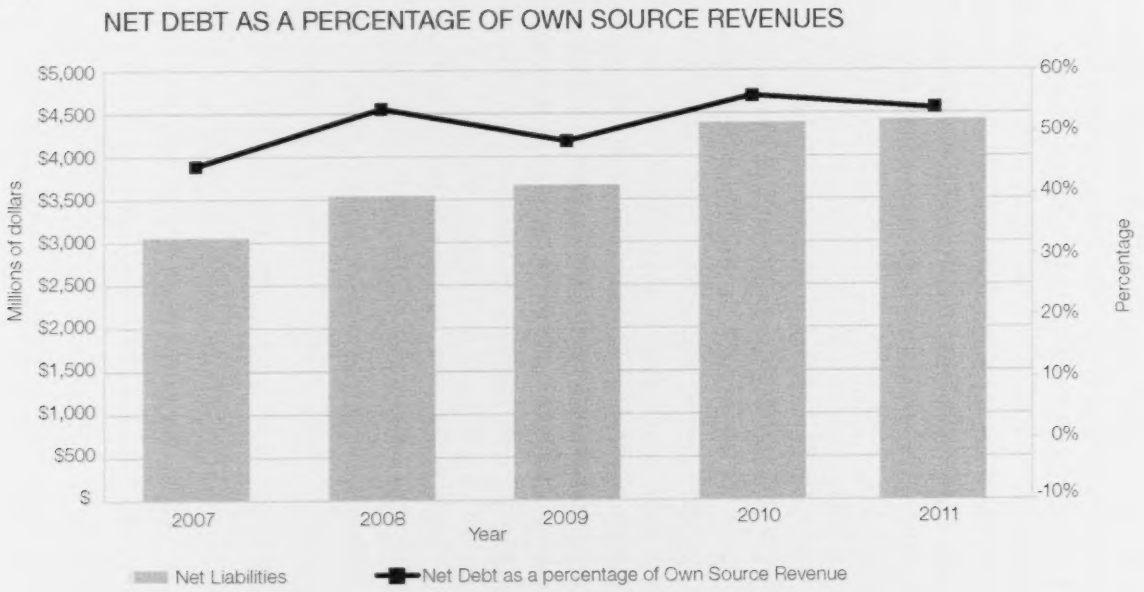
Chart A provides the breakdown of long-term liability growth by debt type.

Chart A



Information on the mortgage liabilities of TCHC is provided in Note 11, the provincial loan and the City's debenture debt is outlined in Note 12, while further detail about the City's employee benefit liabilities is provided in Note 13 of the Consolidated Financial Statements.

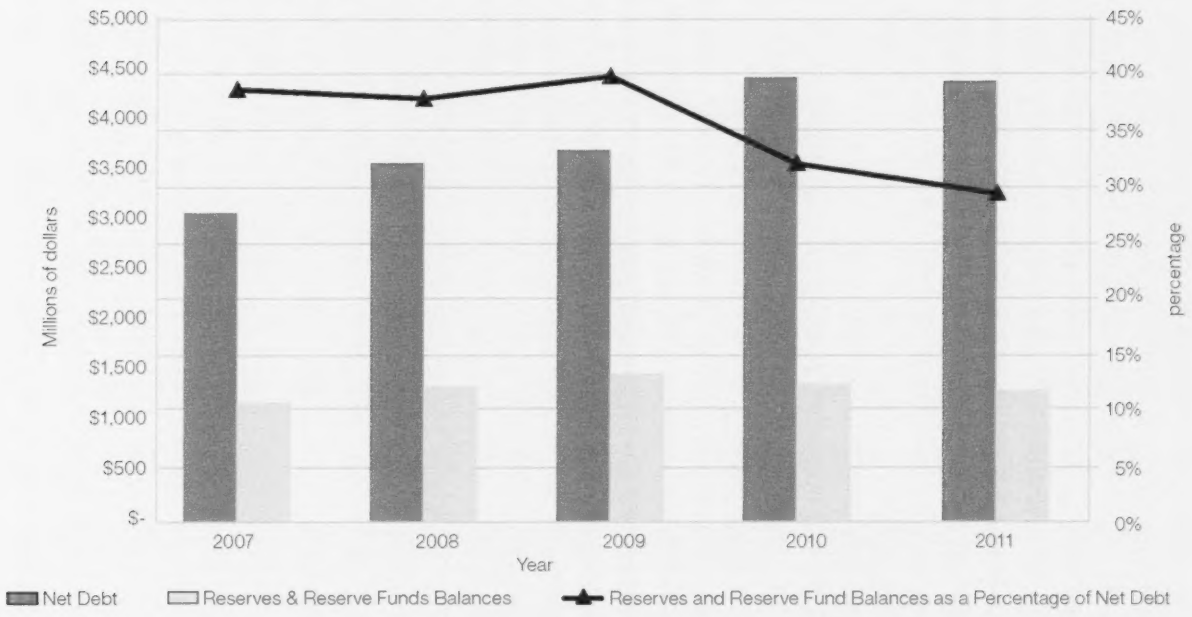
Chart B



To put the City's net liability into a different context, Chart B expresses the net debt as a percentage of the City's own source revenues (excluding government transfers and earnings from investment in government business enterprise (GBEs). The net liability as a percentage of own source revenues has grown from 46.6% to 55.1% over the last five years.

Chart C

DISCRETIONARY RESERVES AND RESERVE FUND BALANCES AS A PERCENTAGE OF NET DEBT



The City's net debt substantially exceeds the City's reserve and reserve fund balances as shown in Chart C. The vast majority of the reserves and reserve funds are committed to fund capital projects identified in the ten year capital plan, and future known liabilities, leaving only a small portion available for discretionary spending. Also, the current balances of some reserve funds (e.g. Employee Benefits) provide only a small portion of the funding to cover the future obligations for which they have been set aside.

The balances of all the Obligatory Reserve Funds are restricted for specific purposes as designated by legislation or contractual agreements and all capital reserves/reserve funds are required to replace and maintain capital assets.

If the Obligatory Reserve Funds were included in Chart C, then the Reserve and Reserve Fund Balances would be 55.3% of Net Debt (2010: 55.9%).

For financial statement purposes, PSAB requires that Obligatory Reserve Fund balances (such as development charges and unspent provincial public transit funding) be classified as deferred revenue (Note 8 (a) of the Consolidated Financial Statements). As a result, the reserve and reserve fund balances in the financial statements (Note 17), are lower than those included in staff reports to the Budget Committee and Council.

ANALYSIS OF KEY ASSET AND LIABILITY ACCOUNTS

Accounts Receivable

Accounts receivable balances increased $154.8M in 2011. The increase consists primarily of the following:

- higher receivable from Government of Canada ($61.7M) due to the following:

	($ millions) Increase (Decrease)
Federal Gas Tax	77.2
Toronto York Spadina Subway Extension (TYSSE)	26.9
Infrastructure Stimulus Funds	25.1
Union Station Project – Transport Canada contribution	9.3
Canada Strategic Infrastructure Fund (CSIF)-claims submitted not yet paid	6.5
G20 Summit Expenses – received in 2011	(67.0)
Harmonized Sales Tax (HST) Rebates	(15.2)
Other increases and decreases	(1.1)
Total	**61.7**

- higher receivable from Government of Ontario ($78.3M) due primarily to the following:

	($ millions) (Decrease)
Transit City – Light Rail Vehicle (LRV) Funding	46.3
Ministry of Transportation – Move Ontario (York Spadina Extension)	27.7
Other increases and decreases	4.3
Total	**78.3**

- decrease in receivable from York Region ($13.7M) due primarily to higher receivable from York Region for their subway contribution ($12.7M) offset by timely collection for Capital cost sharing ($27M) for water infrastructure.

- increase in Water fees receivable is primarily attributable to average increase in water rates of 9% which resulted in higher receivable and higher accrual amount at year end.

The breakdown of accounts receivable at December 31, 2011 with 2010 comparatives is as follows:

	(in thousands of dollars)	
Accounts Receivable	**2011**	**2010**
Government of Canada	316,131	254,476
Government of Ontario	228,338	149,997
Other municipal governments	26,346	40,065
School board	9,382	1,786
Utility fees	133,565	115,205
Other fees and charges	461,046	458,482
Total	**1,174,808**	**1,020,011**

Taxes Receivable

Taxes receivable consists of all outstanding taxes, items that have been added to the tax roll (such as utilities arrears, drainage charges, and local improvement charges), accumulated penalties and interest charges, net of an allowance for uncollectible taxes. A breakdown of this receivable is noted below:

	(in thousands of dollars)	
Taxes Receivable	**2011**	**2010**
Current year	171,704	220,077
Prior year	29,981	36,453
Previous years	32,559	31,140
Interest/penalty	38,317	39,811
Less: allowance for doubtful accounts	(28,352)	(27,094)
Net receivables	**244,209**	**300,387**

Other Assets (Note 3)

Other assets comprised mainly of loans receivable from various organizations. Other Assets increased by $5M to $129M (2010: $124M) due primarily to:

- TCHC advancing an additional $29.3M to Parliament and Gerrard Development Corporation (PGDC) for financing the pre-development costs of condominium buildings; offset by
- Decrease in TCHC loans recoverable from Dundas and Parliament Development Corporation ("DPDC") for $23.9M.

Investments (Note 4)

Investments increased by $201M to $3.5B (2010: $3.3B) due primarily to additional funds received from the Provincial Government for Transit Expansion, Toronto York Spadina Subway Extension and increased development charges funds.

Investment in government business enterprises (GBEs) (Note 5)

Investment in government business enterprises increased by $456M due primarily to increases in GBE earnings resulting from the reclassification of Toronto Port Lands Company as a GBE effective January 1, 2011.

Additional information regarding the City's GBEs as at December 31, 2011, including 2011 transactions for all GBEs

with the City and condensed financial results, are provided in Note 5 and Appendix 1 to the Consolidated Financial Statements.

Accounts Payable (Note 7)

The breakdown of accounts payable and accrued liabilities at December 31, 2011 with 2010 comparatives is as follows:

	(in thousands of dollars)	
Accounts Payable	**2011**	**2010**
Local Board trade payables	637,463	533,279
City trade payables and accruals	905,022	1,055,288
Payable to school boards	260,470	182,805
Provision for tax appeals & rebates	487,309	452,766
Credit balances on property tax accounts	41,657	57,852
Wages accruals	203,992	161,537
Total	**2,535,913**	**2,443,527**

- Local board trade payables were higher in 2011 primarily due to increases in Toronto Transit Commission (TTC) trade payables for $105.7M.
- City trade payables and accruals are lower ($150.3M) due primarily to the following:

	(in millions of dollars)
	Increase (Decrease)
Trade Payables	(105.5)
Holdbacks for construction contracts	(36.5)
Other increases and decreases	(8.3)
Total	**(150.3)**

- Payable to school boards was higher ($77.7M) in 2011 primarily due to higher net tax levy for Toronto District School Board of $90.7M offset by payment of Education Development charges to School Board in 2011 of $13.4M.
- The provision for tax assessment appeals increased by approximately $34.5M primarily as a result of unprocessed pending assessment appeals, and vacancy, charitable and heritage rebates.
- Credit balances on property tax accounts were lower ($16.2M) due to refunds being issued throughout the year thus reducing the outstanding credit balance.
- Wage accruals were higher by $42.4M as an additional day's pay was accrued in 2011 ($4.2M), accrual for outstanding settlements ($21.7M) and an additional accrual due to amounts payable in 2012 from the voluntary separation program agreements signed in 2011 ($16.5M).

Deferred Revenue (Note 8)

Deferred Revenue increased by $73M to $1.51B (2010: $1.44B) primarily as a result of:

- increase in funds received for Development Charges, Building Code and Planning Act of $104.5M;
- increase in Obligatory Reserve Funds of $28.2M for Water & Wastewater due to higher contributions as compared to withdrawals for capital purchases;
- increase in deferred building permit revenues of $10.2M – based on examination of work outstanding at December 31;
- funds received from MetroLinx in payment for their portion of future ownership of Union Station of $28.4M; offset by a
- decrease in Obligatory Reserve Funds of $101.6M for Public Transit due to withdrawals for transit capital purchases.

Other Liabilities (Note 9)

Other Liabilities increased by $78.7M to $555.7M (2010: $477M), mainly as a result of:

- an increase in the property and liability claims provision ($77.4M);
- increases in Toronto Transit Commission (TTC) unsettled accident claims ($14.9M);
- increase in Toronto Transit Commission (TTC) environmental liabilities ($7.2M);
- increase in Build Toronto environmental liabilities ($20M);
- increase in liability for Toronto Police Services for OMERS ($5.4M) due to the timing of payment of the liability; offset by
- decrease in Toronto Port Lands Company (TPLC) environmental liabilities ($47.7M).

Net Long-Term Debt, excluding TCHC Mortgages (Note 12)

Net long-term debt increased by $373.7M to $3.26B (2010: $2.89B) as follows:

(in millions of dollars)

	Increase (Decrease)
Issuance of Debt – City	670.1
– TCHC	25.9
– Other ABC's	39.5
Debt Repayment – City	(202.7)
Debt Repayment – TCHC	(92.0)
Interest earned on sinking funds	(67.1)
Total	**373.7**

Employee Benefit Liabilities (Note 13)

Employee benefits liabilities represent the amount payable to employees or third parties in future years for services that were rendered by the employees in the current or past years. These amounts represent amounts payable for items such as workers compensation, health care benefits for early retirees, and pensions for those retirees covered by the City's legacy pension plans. An actuarial valuation is undertaken every three years to calculate the liability, estimating expected future costs and then calculating the present value based on the applicable municipal bond rate (the discount rate) as at December 31, in accordance with PSAB standards. Employee benefits liabilities were projected, with the same assumptions and methods as those used in the December 31, 2010 valuation, with the exception of the discount rate. To reflect the very low interest rates at December 31, 2011, the discount rates dropped approximately 0.9% from the previous valuation, increasing the liability. As a result of this valuation, the gross employee benefits liability (identified as "Total employee accrued benefit obligation" in Note 13 of the Consolidated Financial Statements) increased by $504M to $3.18B (2010 - $2.67B), and the unamortized actuarial loss increased by $317M to $403M, resulting in a net increase in the liability of $187M.

The net employee benefit liability increase of $187M to $2.77B (2010 - $2.59B) is primarily due to the low discount rate. The increase by category is as follows:

- increase in the non-OMERS pension plan liabilities ($95M);
- increase in sick leave benefits ($45M);
- increase in workers' compensation benefits ($49M);
- increase in post-employment benefits ($315M); offset by an
- increase in unamortized loss ($317M) due to the revaluation.

Tangible Capital Assets (Note 14)

Note 1 to the consolidated financial statements outlines the significant accounting policies including an overview of the policy for recording tangible capital assets. In short, tangible capital assets are recorded at cost and amortized over their useful lives.

The breakdown of tangible capital assets, as well as accumulated amortization, as at December 31, 2011 with 2010 comparatives, is presented in Note 14 and Schedule 1. Tangible capital assets by entity are presented in Appendix 4.

During the year, consolidated asset additions totalled $2.1B, with the most significant portion being building and building improvements of $490M. This consists of $154M at the TCHC, $210M at the TTC, $19M at the Toronto Public Library, $3M at Build Toronto, $39M at the Lakeshore Arena Corporation, $26M at the Toronto Police Services and $39M at the City.

During the year, amortization of tangible capital assets decreased by $204M to $814.5M (2010- $1.02B), mainly as a result of a decrease in TTC amortization of $230M.

Consolidated Expenses

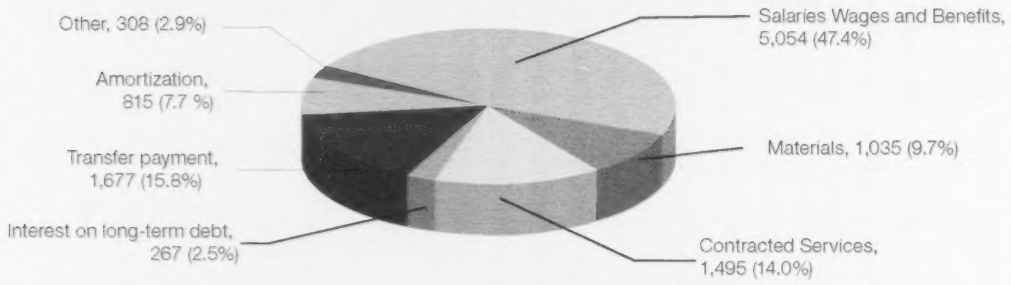
Gross consolidated expenses for 2011 totalled $10.65B (2010: $10.54B). The increase was generated largely by inflationary increases (wages, materials and contracted services), increased employee benefit liabilities and increased interest charges on long-term debt.

Chart D breaks down the gross expenses by cost object. Salaries, wages and benefits accounted for the largest portion at 47.4% of the total amount. It should be noted that principal re-payments on debt are not included as they are considered financing transactions for accounting purposes and are not considered expenses.

Chart D

EXPENDITURES BY OBJECT – CURRENT OPERATIONS

(in millions of dollars)



Note 20 to the Consolidated Financial Statements provides a consolidated (operating and capital) summary of expenses by object.

Table 2 provides a comparison of 2011 Consolidated Net Revenue by program versus budget, and also shows 2010 actuals. The table also provides a comparison of expense by type or category of service.

Table 2

Consolidated Net Revenue by Program

(in thousands of dollars)

	2011 Budget	2011 Actual	Difference	Change	2010 Actual
Revenues					
Property Taxation	3,762,308	3,907,433	145,125	3.7%	3,859,765
Taxation from other governments	91,781	98,596	6,815	6.9%	108,656
User Charges	2,634,516	2,632,476	(2,040)	(0.1%)	2,529,093
Funding transfers from other governments	3,403,246	3,148,351	(254,895)	(8.1%)	3,173,242
Government Business Enterprise Earnings	–	188,041	188,041	100%	153,294
Investment Income	154,581	248,397	93,816	37.8%	265,990
Development Charges	154,072	94,952	(59,120)	(62.3%)	92,162
Rent and Concessions	351,559	386,073	34,514	8.9%	372,959
Other	742,067	641,531	(100,536)	(15.7%)	540,861
Total	**11,294,130**	**11,345,850**	**51,720**	**0.5%**	**11,096,022**
Expenses					
General Government	1,173,332	1,195,957	(22,625)	(1.9%)	1,065,764
Protection to persons and property	1,569,689	1,667,615	(97,926)	(5.9%)	1,569,710
Transportation	2,716,864	2,642,260	74,604	2.8%	2,833,944
Environmental services	1,017,088	871,059	146,029	16.8%	883,897
Health services	410,731	399,207	11,524	2.9%	401,271
Social and family services	2,141,751	2,049,481	92,270	4.5%	2,040,833
Social Housing	894,908	803,748	91,160	11.3%	818,287
Recreational and cultural services	873,448	847,271	26,177	3.1%	795,910
Planning and development	150,299	173,473	(23,174)	(13.4%)	132,562
Total	**10,948,110**	**10,650,071**	**298,039**	**2.8%**	**10,542,178**
ANNUAL SURPLUS	**346,020**	**695,779**			**553,844**

The budget column included in the Consolidated Financial Statements reflects the approved budget at the time the tax levy is approved by Council. Although City Council approves revisions to the budget throughout the year, these amendments are not reflected in the budget column shown in the Consolidated Financial Statements (see Note 18 in the Consolidated Financial Statements). The budget is however, adjusted to exclude purchases of tangible capital assets from expenses, to also exclude debt principal from revenues and expenses, and to allow for amortization of tangible capital assets.

Table 2 reflects the combined operations of the operating, capital, reserves and reserve funds for the City and its consolidated entities.

REVENUES

While the annual budget process focuses primarily on property tax increases, it must be emphasized that property taxes are only one of the City's many revenue sources. In 2011, property taxes made up 39.8% (2010 – 40.4%) of the City's operating revenue.

Property taxes exceeded budget by $145M primarily due to the following:

- Municipal Land Transfer Tax (MLTT) revenue exceeded budget by $97.8M due to higher than anticipated home sales and average home prices;
- Increase in Supplementary Taxes of $30.6M due to higher revenues from supplementary assessment rolls; and,
- Approximately $19.7M represent Business Improvement Area (BIA) levies which were approved by Council to fund operational expenditures in the same amount.

Funding Transfers from other governments were under budget by $255M primarily due to:

- Under-spending in TTC projects for the Toronto-York Spadina Subway Extension by $217M;
- Shelter, Support & Housing Administration operating subsidies were lower by $54.9M, mainly due to lower subsidies in the Social Housing Renovation and Retrofit Program Stimulus Funding (SHRRP) by $59M;
- Ontario Works operating subsidies were lower by $45M, mainly due to lower subsidies than budget for Ontario Works Financial Assistance Program ($40M); offset by
- Receipt of $81M from Metrolinx for transit expansion projects budgeted on a net zero basis.

Government Business Enterprise Earnings ($188M) represent the earnings from Toronto Hydro Corporation, Toronto Parking Authority, Toronto Port Lands Company (reclassified as a GBE effective January 1, 2011) and Enwave. Details are available in Note 5 and Appendix 1 of the Consolidated Financial Statements.

Investment earnings were higher than budget by $93.8M due to interest earned on the sinking fund of $67.1M not specifically budgeted for, and higher than forecast interest and investment earnings of $22.1M.

Development Charges revenues applied to capital spending were under budget by $59.1M, due to under-spending on capital projects, as a result of an inability to find and secure suitable sites, delays in construction start-up, and deferral of work. As an obligatory reserve, development charges are recognized as the funds are spent for the intended purposes.

Rent and Concessions were higher than budget by $34.5M due primarily to higher rental and concession revenues at the agencies, boards and commissions.

Other Revenues were lower than budget by $100.5M primarily due to funding for capital projects that were under-spent. Other revenues include contributions from project partners in joint agreements with the City, other third party recoveries, utility cut recoveries, various revenues such as sale of recycled materials, publications, composters, scrap, recycling revenues, donations, etc.

EXPENSES

Gross consolidated expenses for 2011 totalled $10.65B (2010: $10.54B). The increase was generated largely by inflationary increases (wages, materials and contracted services), increased employee benefit liabilities and increased interest charges on long-term debt. A breakdown of other contributing factors by function is as follows:

- Actual costs for protection to persons and property (Police, Fire, Building Services and Conservation Authority levies and the Provincial Offences Act Courts) was $98M higher than budget, primarily due to:
  - PSAB adjustments for employee benefits ($38.8M) for Fire and Police Services not budgeted for; and,
  - Deficits for City Sponsored Pension Plans ($63.9M) for the Police and Firefighters not budgeted for.

- Transportation (including Roads/Traffic signals maintenance and Transit) was $75M lower than budget, primarily due to under-spending on various projects.

- Environmental services spending was lower than budget by $146M due primarily to under-spending at Toronto Water of $15.2M and at Solid Waste of $114.8M due to:
  - savings in debt charges of $15.4M, as a result of postponement of debt issuance;
  - lower than anticipated tonnage resulting in savings of $9.8M; and
  - under-spending on various projects of $84.5M.

- Social and Family Services spending was lower than budget by $92M, due to the following:
  - Ontario Works (OW) financial benefits were under-spent by $40M due to a lower than budgeted OW caseload;
  - Savings of $12.7M in Affordable Housing Programs due to delays in commencing maintenance projects;
  - Savings of $19.2M in Toronto Employment & Social Services (TESS) due primarily to lower subsidy than budget on Enhanced Employment Services (EES); and
  - Children's Services under-spending of $10.8M.

- Social Housing spending was lower than budget by $91M, due primarily to:
  - Social Housing Administration gross savings of $74.4M, due primarily to delays in flow through of Social Housing Renovation and Retrofit Program (SHRRP) subsidy payments due to milestones requirements, delayed the distribution of funds to non-profit agencies. These will be disbursed in 2012 as milestones are achieved;
  - lower than budgeted spending at TCHC ($14.7M).

FIVE YEAR SUMMARY OF REVENUES

The five year summary of revenues outlined in Table 3 demonstrates that property taxes continue to be the slowest growing revenue source for the City. During this period, assessment growth has been relatively low. In addition, the City has been limited by provincial legislation and Council policy from extending tax rate increases on the commercial, industrial and multi-residential assessment base on the same basis as the residential base. The commercial, industrial and multi-residential property classes represent 55.3% of the City's tax revenue base.

As a result of the slow growth of property tax revenue, more reliance has been placed on user fees, senior government transfers and other sources of revenue to meet expenses and minimize property tax rate increases.

Five Year Summary of Revenues

Table 3

Consolidated Revenues – 5 year Summary

(in thousands of dollars)

Revenues	Avg. Annual Increase	2011	2010	2009	2008	2007
Property taxes	2.88%	3,681,241	3,646,675	3,520,450	3,369,949	3,285,947
Municipal land transfer tax (MLTT)	25.05%	324,065	278,980	183,892	165,743	–
Personal vehicle Tax (PVT)	N/A	723	42,766	51,717	14,992	–
User charges	4.25%	2,632,476	2,529,093	2,309,164	2,401,354	2,205,493
Government transfers	9.48%	3,148,351	3,173,242	2,993,468	3,025,828	2,188,715
Rent and Concessions	2.68%	386,073	372,959	355,005	355,591	347,317
Other	8.93%	1,172,921	1,052,307	1,000,795	404,383	833,064
Total	**6.38%**	**11,345,850**	**11,096,022**	**10,414,491**	**9,737,840**	**8,860,536**
Percentage Increase		2.25%	6.54%	6.95%	9.90%	

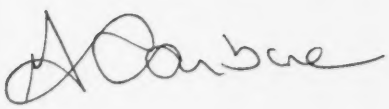
RISKS AND MITIGATES

The City continues to face a number of risks that could have a negative impact on the City's financial future. These risks include: lack of long-term dedicated funding to assist the City in addressing its infrastructure deficit including building and expanding the transit system to meet the City's strategic goals and accessing non-property tax revenue sources that grow with the economy to ensure long term sustainable funding.

In 2011, the City continued to make progress to address these risks by continuing to implement its Long Term Financial Plan. Appendix B lists eight (8) specific financial issues/risks and the actions taken in 2011 to help address them.

Highlights include:

- Implementation of the Service Review Program to identify those services the City should continue to deliver, provide efficiency and effectiveness measures for those programs, and recommend proper funding sources. The Service Review Program has three parts:
  - Core Service Review (completed in 2011),
  - User Fee Review (completed in 2011), and
  - Service Efficiency Studies (which commenced in 2011 and will continue into 2012 and 2013);
- Continued cost containment;
- Voluntary Separation Program which reduced staffing by 714 positions; and
- Completion of over 500 infrastructure projects, which were partially funded by stimulus funding from the Federal and/or Provincial governments.



Giuliana Carbone
Treasurer

Toronto, Canada
July 13, 2012

APPENDIX A: KEY ISSUES/RISKS FACING THE CITY OF TORONTO

Issues/Risk	Actions Taken in 2011	Actions planned for 2012 and beyond
City has a higher cost structure than other municipalities in the GTA	• Continuous improvement initiatives and programs continued, to ensure appropriate use of resources. • City Council continued to adopt strict budget guidelines for City divisions and ABCs. (10% reduction over 2010 and 2011). • Cost containment measures remained in place. • Continued to develop the new Financial Planning, Analysis and Reporting system, approved by Council in 2007 with Phase 1 implementation planned for April 2013 for the 2014 budget process and full implementation scheduled for Jan. 2014. The new system sets the foundation for multi-year performance/service-oriented operating budgets. The system will: o track and report performance measures and service level indicators; o align complement management and complement planning processes; o assess cost performance efficiency; o enable better alignment of the City's limited resources to Council priorities; o provide flexibility to incorporate and track long-term service planning initiatives; o establish the framework to balance service levels and priorities with affordability. • Continued to benchmark operations with other Ontario municipalities. • A multi-year approach is planned to address the operating pressure and capital funding gap. A Service Review Program was implemented in 2011 to identify what services the City should deliver, how they can be more efficient and cost effective, and how we should pay for them. The Service Review Program has three parts: o The Core Service Review (completed in 2011) identified what services the City should be delivering. It sets the foundation for the City's services going forward and assists with moving towards a multi-year financial planning and budgeting process in 2012.	• Apply aggressive budget reduction targets: (10% for 2012). • Contracts for Local 79 and 416 are up for renegotiation and management will be seeking further relief from the rising costs. • Continue to implement recommendations from the Core Service Review that were adopted by Council such as request for proposal to determine options for sale, lease, operation or other arrangement in respect of the Toronto Zoo, and City owned theatres. • Continue with the Service Efficiency Studies that were recommended. • Maintain continuous improvement initiatives including enhanced performance measures and benchmarking. • Continue to develop and implement the new Financial Planning, Analysis and Reporting system to improve budget analysis and program rationalization. • Internal Audit and Auditor General continue to conduct audit reviews with a view to maintain and improve internal controls and identify opportunities for further efficiencies. • Continue to benchmark operations with other Ontario municipalities.

Issues/Risk	Actions Taken in 2011	Actions planned for 2012 and beyond
	○ The User Fee Review (completed in 2011) examined how City's services are paid for. It provides guidelines on how user fee prices are set with the objective of full cost recovery. ○ The Service Efficiency Studies (which commenced in 2011 and will continue into 2012 and 2013) will make sure that services do not cost more than they should, and identify new and more efficient ways to deliver services at a lower cost. • Established "Ideas that Work", an employee engagement strategy that uses various ways to gather employee ideas and suggestions for identifying service efficiencies and cost savings. • Implemented a voluntary separation program.	
Demands for growth as laid out in the Official Plan or other Sectoral and Program plans are not adequately funded	• Move Ontario Trust was established in March 2006 for the purpose of holding, investing and disbursing funds to the Toronto York Spadina Subway Expansion project. A total investment of $870 million from the provincial government plus $75 million from the federal government was made. These funds are not included in the City's Financial Statements as they are held in a separate Trust Fund. • April 1, 2009 the Province of Ontario announced full funding for 3 significant components of the Transit City plan: the $4.6 billion Eglinton line from Kennedy Station to Pearson airport; the $1.2 billion Finch West line from Humber College to Don Mills Subway station; and the $1.4 billion Scarborough Rapid Transit (RT) rehabilitation and extension. Although the timelines have been extended as part of the 2010 Ontario Budget, the Provincial commitment to these projects remains. • Finished more than 500 infrastructure projects with the help of federal/provincial economic stimulus programs. The combined funding under the Infrastructure Stimulus Fund (ISF), Recreational Infrastructure Canada (RInC-REC) and Social Housing Renovation and Retrofit Program (SHRRP) totalled $460 million, and has created local jobs and improved infrastructure. Funding was available for two years for projects that were materially built by October 2011.	• Continue to refine cost estimates related to growth plans. • Province, Metrolinx and the City to jointly begin planning for the new transit plans with the Province contributing $8.4 billion towards the plan. Metrolinx is responsible for delivering the Scarborough RT, Eglinton Scarborough Crosstown, Finch West and Sheppard Ave East Light Rail Transit (LRT) projects. • Update Development Charges By-law to reflect updated growth figures and capital spending plans. • Continue to direct funding to the infrastructure backlog.

Issues/Risk	Actions Taken in 2011	Actions planned for 2012 and beyond
	• Executed a $20 million loan through the Municipal Infrastructure Loan Program to finance municipal infrastructure related to social housing redevelopment (so that the total value of the 3 loans executed over 2010 & 2011 is $120 million); and continued to complete capital projects funded under this low interest rate federal program administered by CMHC. • Infrastructure backlog continues to grow especially for transportation and parks and recreation while for some the backlog is being addressed such as water and city facilities.	
There is a variability in certain program expenditures from year to year, some of which are vulnerable to economic down turns and interest rate fluctuations	• In 2007, the Province (through the Provincial Municipal Fiscal and Service Delivery Review - PMFSDR) agreed to fully fund the Ontario Disability Support Program (ODSP) and the Ontario Drug Benefit (ODB) program. ODB upload was completed in 2008 and the ODSP was completed in 2011. Additionally, the Province agreed to: upload the cost of Ontario Works and Court Security by 2018; and, fully fund their 50% share of Ontario Work (OW) Cost of Administration (COA) starting in 2010. • Continued to work with the Province on a Toronto-Ontario partnership agreement on permanent, sustainable transit operating funding. • Continued to take actions on other risks impacting the City with potential financial impacts: o Climate change adaptation and environmental risks management. o Closely monitored the impacts of interest rate changes on Social Housing costs, investment returns and debt charges.	• Continue to work with the Province to operationalize the upload and refine the relationship regarding social and related services: OW benefit costs began in 2010 & will be completed by 2018; OW COA started in 2010. • Through the Social Service upload, the Province has re-established the principle that income support programs should not be funded from the property tax base. As such, the City will continue its discussion with the Province regarding its funding responsibilities for Social Housing. • Continue to work with the Province on the agreed upload of court security costs by 2018. • Continue to negotiate with the Province on permanent, sustainable transit operating funding (50% of transit operating costs) and the need for additional capital funds as noted above. • Closely monitor key economic indicators and market conditions to identify trends and forecast impacts on expenditures and revenues, and continue to develop funding strategies to mitigate financial risks.

Issues/Risk	Actions Taken in 2011	Actions planned for 2012 and beyond
Business property taxes are not competitive with the surrounding urban area (905 area code)	• The City has continued the implementation of "Enhancing Toronto's Business Climate" initiative, adopted by City Council in October 2005 – a plan to reduce the ratio for property tax rates for businesses (i.e. commercial and industrial) and multi-residential properties to 2.5 times the residential tax rate by 2020 (a 15 year plan); and further, to provide for an accelerated reduction in tax rates for smaller businesses, with a target of 2.5 times the residential rate by 2015 (a 10 year plan). The estimated benefit to businesses over the 15-year period is approximately $250 million. • For 2011, Council has continued to accelerate tax rate reductions for properties that are included in the "Residual Commercial" tax class. For these properties, a lower tax rate applies to the first million dollars of a property's assessment (Band 1). The portion of the assessment above one million dollars is taxed at the "Commercial General" tax class rate (Band 2).	• Council approved a modest property tax increase for residents and businesses for 2012 with similar expectations for 2013. • Council is on track to meet its targets of 2015 and 2020. • 2013 is a reassessment year for taxes paid between 2013 and 2016 which may require a re-examination of tax policies. Council will reconsider its tax policies after reviewing the new assessment data.
The City lacks adequate revenue sources to fund its municipal responsibilities	• Funding for capital projects from other orders of government has been secured over the years – e.g. Share of federal and provincial gas taxes ($300 million per year); Transit Plan ($9 billion); Economic Stimulus Project funding ($460 million 2009 to 2011); one-time transit funding between 2006 and 2009 has ranged from $58 to $360 million per year. • Cancelled Personal Vehicle Tax (PVT) in 2011. • Volatile Municipal Land Transfer Tax (MLTT) continued in 2011 attracting a record level of revenue ($320 million) and contributing almost $100 million to the 2011 operating surplus. • The new City-wide Sign Bylaw and the Third-Party Sign Tax came into effect on April 6, 2010. However, a subsequent court ruling has limited the full application of the Sign Tax, potentially reducing revenues that the City would otherwise collect, subject to appeal by the City.	• Update the Long Term Fiscal Plan in 2012 / 2013. • Continue to petition the Province to restore permanent, sustainable transit operating funding (50% of transit operating costs). • Continue to work with the Provincial and Federal governments to secure long term permanent funding solutions for such items as housing. • Continue to budget cautiously for MLTT to avoid negative budget impacts and contribute to any surplus to fund the capital shortfall. • The City won its appeal from a lower court ruling so that it can fully implement the sign tax subject to the failure of a third party requested leave to further appeal to the Supreme Court.
Improper funding of Provincial cost-shared programs has resulted in significant financial pressures to the City	• Province to continue honoring its cost sharing formulae for Ontario Works.	• Province to continue honoring its cost sharing formulae for Ontario Works and Court Security. • Continue to highlight costs and requirements in areas of joint responsibility, such as social housing and transit and childcare.

Issues/Risk	Actions Taken in 2011	Actions planned for 2012 and beyond
City's investment in ageing infrastructure has been lagging	• The City continued to plan for capital on a 10 year basis. • Continued to invest funds in State of Good Repair Reserve Fund. • $700 million capital budget shortfall for TTC vehicles to be funded through a combination of asset monetization proceeds, operating surpluses, and potential new funding from other orders of government over three years.	• Approval of firm 10-year Capital Plan with an emphasis on the state of good repair activities. • Continue to plan for a three year operating plan. • Continue to increase direct operating budget contribution to capital program to offset a portion of debt requirements. • Continue the plan to find a $700 million TTC vehicle shortfall through a combination of asset monetization proceeds, operating surpluses, and potential new funding from other orders of government over three years. • Further enhance asset management planning. • Continue to seek funding for transit projects from provincial and federal governments.
Employee benefits and other long-term liabilities are not adequately funded	• The City updated the actuarial reviews of its employee benefit plans. • Implemented effective Jan 1, 2010 a new Illness or Injury Plan (IIP) for TCEU Local 416 and CUPE Local 79 which resulted in all employees hired after July 31, 2009, not being provided with a sick pay plan. In addition, existing employees had a one-time option to switch to the new IIP plan. As a result, 40% of employees switched to the new IIP plan resulting in a net reduction in current and future sick leave liability of $174.1 million. For management and non-union staff, a similar Short Term Disability Plan was already implemented on March 1, 2008. • Surplus funds in the order of $12 million directed toward benefit reserve funds as a one-time additional contribution. Even with this increase there is still a $122 million shortfall from the City's policy that the Reserve accounts should contain two times its annual costs.	• Implementation of approved strategies to reduce the funding gap between employee benefits reserve and the liabilities: o First stage: to require ABCs to contribute annual funding to the Sick Leave Reserve Fund to match budgeted withdrawals (pay as you go); and, o Second stage: to revise the annual benefit charges to Divisions and applicable ABCs to reflect additional funding requirements for retired employees, employees on long-term disability, workplace safety (pre-amalgamation) and sick leave gratuity payouts. • Contracts for Local 79 and 416 are up for renegotiation and management will be seeking further relief from the rising costs of benefits.

2011 CONSOLIDATED FINANCIAL STATEMENTS

CITY OF TORONTO FINANCIAL REPORT

MANAGEMENT'S REPORT

The management of the City of Toronto ("City") is responsible for the integrity, objectivity and accuracy of the financial information presented in the accompanying consolidated financial statements.

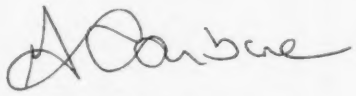
The consolidated financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. A summary of the significant accounting policies is disclosed in Note 1 to the consolidated financial statements.

To meet its responsibility, management maintains comprehensive financial and internal control systems designed to ensure the proper authorization of transactions, the safeguarding of assets and the integrity of the financial data. The City employs highly qualified professional staff and deploys an organizational structure that effectively segregates responsibilities, and appropriately delegates authority and accountability.

The Audit Committee, a sub-committee of City Council ("Council"), reviews and approves the consolidated financial statements before they are submitted to Council. In accordance with Council's directive, the Auditor General oversees the work of the external auditors performing financial statement attest audits. While it is important to recognize that the external audit is an independent process, the Auditor General's role is to ensure that all significant audit issues are appropriately addressed and resolved. In this context, the Auditor General participates in all significant meetings held between the external auditors and management.

The 2011 consolidated financial statements have been examined by the City of Toronto's external auditors, PricewaterhouseCoopers LLP, and their report precedes the consolidated financial statements.

Toronto, Canada
July 13, 2012



Giuliana Carbone
Treasurer

Cam Weldon
Deputy City Manager & Chief Financial Officer

Joseph P. Pennachetti
City Manager

INDEPENDENT AUDITOR'S REPORT

To the Members of Council, Inhabitants and Ratepayers of the **City of Toronto**

We have audited the accompanying consolidated financial statements of the City of Toronto, which comprise the consolidated statement of financial position as at December 31, 2011 and the consolidated statements of operations and accumulated surplus, change in net debt, and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the City of Toronto as at December 31, 2011 and the results of its operations, changes in its net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
July 13, 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at December 31, 2011

(with comparative figures as at December 31, 2010)

(all dollar amounts in thousands of dollars)

	2011	2010
FINANCIAL ASSETS		
Cash	483,124	481,734
Accounts receivable (Note 2)	1,174,808	1,031,976
Property taxes receivable	244,209	300,387
Other assets (Note 3)	129,063	112,081
Investments (Note 4)	3,495,596	3,294,207
Due from Toronto District School Board (Note 12)	30,190	33,815
Investments in government business enterprises (Note 5)	1,716,093	1,259,784
Total financial assets	**7,273,083**	**6,513,984**
LIABILITIES		
Bank indebtedness (Note 6)	144,710	135,329
Accounts payable and accrued liabilities (Note 7)	2,535,913	2,443,527
Deferred revenue (Note 8)	1,512,593	1,439,639
Other liabilities (Note 9)	555,746	477,004
Landfill closure and post-closure liabilities (Note 10)	121,440	121,058
Mortgages payable (Note 11)	773,590	803,636
Net long-term debt (Note 12)	3,264,220	2,890,472
Employee benefit liabilities (Note 13)	2,776,167	2,588,957
Total liabilities	**11,684,379**	**10,899,622**
NET DEBT	**(4,411,296)**	**(4,385,638)**
NON-FINANCIAL ASSETS		
Tangible capital assets, net (Note 14, Schedule 1)	20,629,025	19,589,103
Inventories and prepaid expenses (Note 15)	294,343	281,589
	20,923,368	19,870,692
Commitments and contingencies (Note 16)		
ACCUMULATED SURPLUS (Note 17)	**16,512,072**	**15,485,054**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

for the year ended December 31, 2011

(with comparative figures for the year ended December 31, 2010)

(all dollar amounts in thousands of dollars)

	2011 BUDGET (Note 18)	2011 ACTUAL	2010 ACTUAL
	(unaudited)		
REVENUE			
Property taxation	3,762,308	3,907,433	3,859,765
Taxation from other governments	91,781	98,596	108,656
User charges	2,634,516	2,632,476	2,529,093
Funding transfers from other governments (Note 19)	3,403,246	3,148,351	3,173,242
Government Business Enterprise Earnings (Note 5)	–	188,041	153,294
Investment Income	154,581	248,397	265,990
Development charges	154,072	94,952	92,162
Rent and Concessions	351,559	386,073	372,959
Other	742,067	641,531	540,861
Total revenue	**11,294,130**	**11,345,850**	**11,096,022**
EXPENSES			
General government	1,173,332	1,195,957	1,065,764
Protection to persons and property	1,569,689	1,667,615	1,569,710
Transportation	2,716,864	2,642,260	2,833,944
Environmental services	1,017,088	871,059	883,897
Health services	410,731	399,207	401,271
Social and family services	2,141,751	2,049,481	2,040,833
Social housing	894,908	803,748	818,287
Recreation and cultural services	873,448	847,271	795,910
Planning and development	150,299	173,473	132,562
Total expenses (Note 20)	**10,948,110**	**10,650,071**	**10,542,178**
ANNUAL SURPLUS	**346,020**	**695,779**	**553,844**
ACCUMULATED SURPLUS - BEGINNING OF YEAR	**15,248,742**	**15,485,054**	**14,931,210**
GBE - Transition adjustments upon IFRS Adoption (Note 5)	–	**331,239**	–
ACCUMULATED SURPLUS – END OF YEAR (Note 17)	**15,594,762**	**16,512,072**	**15,485,054**

The accompanying notes are an integral part of these consolidated financial statements.